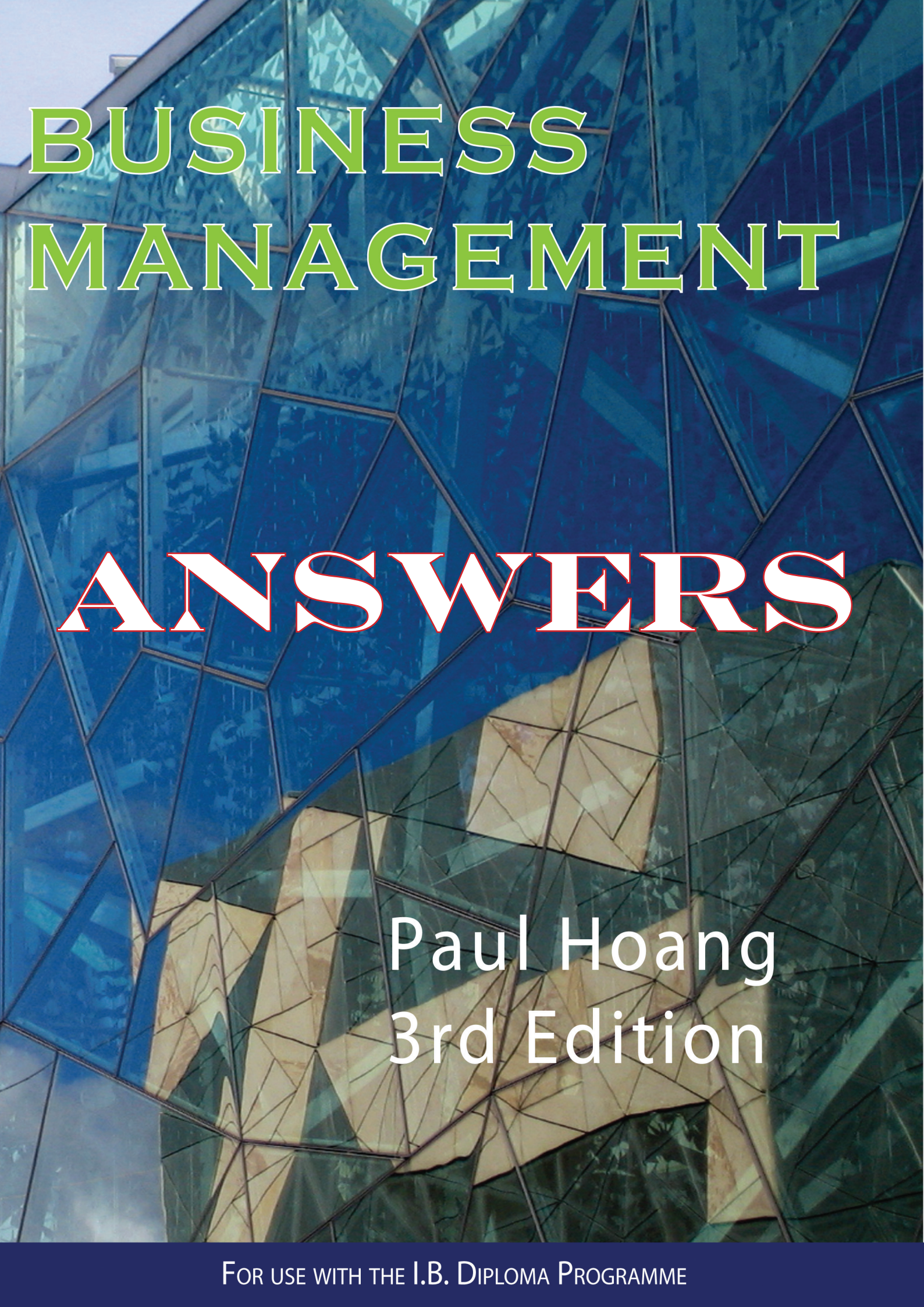


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BUSINESS MANAGEMENT

ANSWERS

Paul Hoang
3rd Edition

FOR USE WITH THE I.B. DIPLOMA PROGRAMME



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Answer Pack

IB Business Management, 3rd Edition

Message from the author

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This Answer Pack contains suggested answers and mark schemes to all 209 examination-style case study questions in the textbook, *IB Business Management, for use with the IB Diploma Programme, 3rd Edition*. This Answer Pack is intended for use by teachers to aid their planning and teaching.

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With warm wishes,

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ANSWERS

Unit 1.1 Introduction to business management

Question 1.1.1 The business of education

- (a) Revenue is the money that a business receives from the sale of its goods and/or services, e.g. private schools can earn revenue from tuition fees and fund-raising events. By contrast, costs are paid by a business for the production costs of goods and/or services, e.g. staff salaries and the costs of running the school.



Award up to 2 *marks* for a distinction between revenue and costs of production.

Award up to 3 *marks* for a distinction between revenue and costs of production with relevant examples of these in the context of schools.

- (b) This question requires application of the four main functions of a business organization. For example:
- Human resources: The recruitment and ongoing training of teachers and support staff (non-teaching staff).
 - Finance: Allocating budgets for the year's spending on items such as textbooks, equipment, and maintenance (repairs and improvements). Schools might also seek additional sources of funding (revenue) such as grants from the government. There is also a need to account for all costs (expenditure) and revenues of the school.
 - Marketing: schools need to attract customers (students and their parents). This might be done through means such as offering a broad and enriching curriculum and providing a wide range of opportunities (such as extra-curricular activities). Public relations and promotion (such as informing parents and the community about exam results) will also be important.
 - Operations management: the main output in schools is the provision of lessons (learning). Other operations might include sporting events, music concerts, school fund-raising events and the hiring out of school facilities to outside agencies.

Award 1–2 *marks* for a vague answer that shows limited understanding of business functions.

Award 3–4 *marks* for an explanation of the various business functions in a business organization.

Award 5–6 *marks* for a thorough examination of how business functions work in a business organization. At the top end, there is clear application to the case study material.

Question 1.1.2 Production sectors

- (a) A = China
B = Germany
C = Pakistan

(b)

	China	Germany	Pakistan
Agriculture	9	1	22
Manufacturing	47	28	24
Services	44	71	54

This question requires candidates to examine and explain the data in their answers. For example:

- In LEDCs like Pakistan, agriculture accounts for a larger proportion of GDP. Therefore, Germany and China do not fit this criterion.
- Pakistan's large pool of low-paid workers (being the sixth most populated nation in the world) means that its primary sector is relatively significant.
- China is a fast-growing and industrializing nation, and it is therefore safe to assume that manufacturing accounts for a significant share of its GDP; this is more apparent in China than in Germany or Pakistan.
- Many multinationals from the USA and Europe have also invested directly in China to exploit the relatively cheap but skilled labour.
- The services sector is the most predominant sector in MEDCs such as Germany. As an economically developed nation, Germany does not need to rely heavily on its manufacturing base, unlike China.

Award 1–2 marks for a vague answer that shows limited understanding.

Award 3–5 marks for an attempt at justifying the answer. There is relevant use of business management terminology in addressing the question. At the top end, the data has been explained.

Award 6–7 marks for a thorough examination of the data in addressing the question. At the top end, there is clear justification to the answer, with good use of business management terminology and application to the case study material.

Unit 1.2 Types of organization

Question 1.2.1 Provision of basic services

- (a) Most businesses operating in the private sector primarily aim to make a profit, e.g. private health-care clinics or private schools will charge customers more than public hospitals or public sector schools (which provide many or all of their services free of charge due to government funding). Other aims of private sector firms include to increase market share and to become the market leader. By contrast, businesses in the public sector tend to provide a service to the general public whilst covering their operational costs.

Award 1–2 marks if the distinction shows some understanding of the different aims of businesses in the public sector and the private sector, although there is a lack of depth and/or use of examples.

Award 3 marks for a clear distinction between the aims of businesses in the public sector and the private sector. There is good use of relevant examples.

- (b) Cooperatives are for-profit social enterprises owned and run by their members (e.g. employees or customers). The goal is to create value for their members by operating in a socially responsible way. Cooperatives share any profits earned between their members. Hence, housing provided by housing cooperatives will generally cater for households on lower incomes. Price will therefore be relatively low, i.e. highly affordable housing. Thus, the quality of the housing may well be lower than in the private sector. The cooperative owns the property, with a proportion of the profits going back into the business, e.g. maintenance and renovations of housing provided by the housing cooperative.

In contrast, housing provided by the private sector is based on the market forces of demand (for housing) and supply (of housing) in a particular area. The private sector is more likely to provide greater choice, e.g. different styles and sizes of houses to suit a range of preferences and budgets. Hence, the prices of the houses tend to be higher. Home buyers will generally take out a mortgage to purchase the private property, which is made available to anyone who is able and willing to purchase the home. The buyer of the (private) property owns it.

Award 1–2 marks for an answer that shows limited understanding.

Award 3–4 marks for an answer that shows a good understanding although the answer lacks sufficient detail and/or lacks relevance to the provision of housing.

Award 5–6 marks for a detailed answer that clearly examines how housing provided by a housing cooperative might differ from that provided by the private sector. There is good use of business management terminology throughout the answer.

Question 1.2.2 Flowers by Cam

- (a) A **sole trader** is someone who owns and runs his/her own business, e.g. Cam Tran owns and operates her own flower store.

Award 1 mark for a vague definition or one that makes no reference to Flowers by Cam.

Award 2 marks for a clearly defined and applied definition.

- (b) The benefits to Cam Tran in operating as a sole trader include:
- It would have been quite simple for the owner to set up Flowers by Cam as there are relatively few legalities and procedures involved.
 - The profits would be reaped only by Cam as there are no other owners.
 - Being her own boss allows Cam to have more flexibility in decision-making, e.g. closing the store early so that she can pick up her three children from school or to attend parents' events at the school.
 - Being a small business, Cam can keep all business transactions private, i.e. only the tax authorities need to know about her financial accounts.

However, there are also costs for Cam Tran in choosing to operate as a sole trader:

- Sole proprietors have unlimited liability so this means that Cam could possibly lose her personal possessions to finance any debts that Flowers by Cam might incur.
- As a sole trader, Cam would find it difficult to secure various sources of finance, especially as she does not sell a wide range of products.
- There might also be costs related to her private circumstance, e.g. child care or the loss of time with her family due to the busy workload and stress of being a sole trader.
- A lack of continuity can occur with sole traders, especially if the owner becomes ill.

Award 1–2 marks for a vague answer that shows limited understanding.

Award 3–4 marks for an attempt at examining the costs and/or benefits of operating Flowers by Cam as a sole trader. Award up to 3 marks if only costs or benefits have been examined.

Award 5–6 marks for a thorough examination of both costs and benefits of Flowers by Cam operating as a sole trader and if there is clear application to the case study material.

Question 1.2.3 EXP: The Chinese Experience

- (a) An **ordinary partnership** exists when there are up to 20 owners in a partnership, including any silent partners. At least one of these partners must have unlimited liability. In this case, Tonina and Keith each own 50% of the business and both are held personally liable for any debts that EXP might incur.

Award 1 mark for a vague definition or one that makes no reference to EXP.

Award 2 marks for a clearly defined and applied definition.



- (b) Advantages to Tonina and Keith running EXP as a partnership include:
- Division of labour can yield cost-saving benefits to the partnership.
 - Since there are two owners, it is more likely that the restaurant can raise additional finance compared to if it had been set up as a sole proprietorship.
 - The financial accounts of EXP are private to the two owners, except for the tax authorities.

Disadvantages in running the restaurant as a partnership include:

- Disputes between the partners could bring the business to a halt.
- Profits must be split 50:50.
- EXP still has restricted finance compared to limited liability companies that can raise finance through the sale of shares.
- Ordinary partnerships have unlimited liability, meaning that Keith and Tonina could lose their personal possessions if the business falls into debt and/or collapses.

Award 1–2 marks for a vague answer that shows limited understanding. Award up to 2 marks if only an advantage or disadvantage is explained.

Award 3–4 marks for an attempt at a balanced answer that considers both advantages and disadvantages of running EXP as a partnership.

- (c) Smaller restaurants might find it difficult to operate and compete with larger restaurants for a few reasons, including:
- Limited sources of finance reduce the scale and scope of the firm's operations. This will therefore limit EXP's ability to benefit from economies of scale.
 - Smaller businesses are statistically more prone to severe cash flow problems.
 - Since they lack human and financial resources, smaller restaurants are not able to benefit from division of labour. This means a greater workload for Keith and Tonina.
 - Smaller businesses have a limited customer base and therefore this restricts their profitability (and hence their ability to survive).
 - Credit any other reasonable answer.

Award up to 2 marks for each fully explained reason, up to a maximum of 4 marks.

- (d) Small businesses can remain highly lucrative and beneficial to their owners for several reasons, including:
- The owners remain highly flexible and adaptable to change, so if the business idea or plan does not work out then Keith and Tonina are quite flexible in making the necessary changes, e.g. it is relatively easy to transfer a small restaurant to a nail and beauty salon than for McDonald's to change their complete operations.

- Small businesses such as EXP might operate in niche markets and can become highly profitable. These markets may be untouched by larger businesses that are more concerned with mass market operations.
- There is more autonomy in decision-making for the owners of small businesses such as EXP. By contrast, managers working in large multinational companies are held accountable to their shareholders.
- There are fewer legal issues involved in the running of a small business. Large businesses are held accountable to a much wider range of stakeholders and their financial accounts may need to be made public.
- EXP is already operating at near capacity, so stretching operations beyond their means (overtrading) might harm the firm's reputation (late deliveries and lower quality food).
- Any other reasonable benefit explained in the context of EXP.

Award 1–2 marks for a vague answer that shows limited understanding.

Award 3–4 marks for an attempt at examining the benefits to the owners of EXP operating as a small business.

Award 5–6 marks for a thorough examination of the benefits to EXP operating as a small business, with clear application of the case study material.

Question 1.2.4 Mars Inc.

- (a) The term 'private limited company' means that Mars Inc. is owned by shareholders although the shares cannot be openly traded on a stock exchange. All shareholders of the business have limited liability because the company and its owners are treated as separate legal entities.

Award 1 mark for a vague definition or one that makes no reference to Mars.

Award 2 marks for a clearly defined and applied definition of private limited company.

- (b) The discussion should consider the (dis)advantages of both private and public limited companies. For example:
- Private limited companies cannot raise share capital from the general public as shares are only sold to personal family members and friends. This clearly limits the finance that Mars Inc. is able to raise to compete against rivals such as Nestle and Cadbury's (Kraft Foods).
 - However, this fact also means that the directors (members of the Mars family) can maintain overall control of the business. For this reason, many private companies are run as family businesses and without the threat of an unwanted takeover (acquisition).
 - Although it is unlikely to be a real issue for Mars Inc., there are financial implications of transforming to a public limited company, such as the cost of flotation (e.g. advertisements, prospectuses, auditors and accountants) and the need to make financial accounts available to the (increased number of) shareholders.
 - By keeping the company private, it can provide financial security for future generations of the Mars family.
 - By contrast, Mars Inc. could raise a colossal amount of capital by selling shares on a stock exchange. With its global reputation, an initial public offer (IPO) from Mars Inc. is likely to attract major attention from private and institutional investors.
 - However, there will be greater pressure from shareholders to receive dividend payments and this can be made more difficult if a non-family member is on the Board of Directors.
 - For personal and historical reasons, the Mars family may be very reluctant to float their company, irrespective of any financial benefits that could be reaped.

Award 1–2 marks for a vague answer that shows limited understanding.

Award 3–4 *marks* for an attempt at examining the costs and benefits to the Mars family of keeping their business as a private limited company. Award up to 4 *marks* if there is no application to the case study.

Award 5–6 *marks* for a good examination of the costs and benefits to the Mars family of keeping their business as a private limited company. There is an attempt at applying the answer to the case study. Award up to 5 *marks* if a one-sided argument is provided.

Award 7–8 *marks* for thorough discussion that considers both the costs and benefits of changing to a PLC, with appropriate application made to Mars Inc.

Question 1.2.5 Hong Kong Disneyland

- (a) The benefits of the public–private partnership for Hong Kong Disneyland (HKDL) include:
- With an estimated 36 000 jobs being created, there would be reduced unemployment in the economy. The benefits of reduced unemployment, such as increased consumer confidence and increased consumer spending, could be further examined.
 - The globally-recognized Disneyland brand name would help to make Hong Kong a more attractive tourist destination. This will again stimulate more spending in the economy, thereby leading to the economic growth of Hong Kong (with an estimated net benefit of \$19 billion over 40 years).
 - Had the partnership not taken place, then perhaps the government would have had to raise taxes in order to have sufficient finance to own the park as a franchise or Disneyland may not have invested in Hong Kong due to the lack of financial incentives and support.

Award 1–2 *marks* for a vague answer that shows limited understanding.

Award 3–4 *marks* for an attempt at examining two benefits of the HKDL public-private enterprise. Award up to 4 *marks* if there is no application to the case study.

Award 5–6 *marks* for a thorough examination of the HKDL public–private enterprise to the Hong Kong economy. There should be a clear examination of any **two** benefits to the domestic economy for maximum marks. Note that there is no need to have prior knowledge of the Hong Kong economy to answer this particular question.

- (b) Some of the arguments for using tax revenues in this case include:
- Taxpayers could benefit in the long run since the government (which is the majority stakeholder and shareholder of HKDL) would have an alternative source of revenue (assuming HKDL makes profits, of course).
 - Tax revenues are a government's largest source of revenue; any other source (e.g. borrowing or revenue from public sector corporations) is unlikely to be sufficient to finance such a huge investment project. Furthermore, borrowing would mean the government incurs interest charges on its loans.
 - It would be easier to justify using tax revenues to finance this expenditure during prosperous economic times, i.e. high employment (which generates greater tax revenues) and when the government has a budget surplus (a situation when tax revenues exceed government expenditure).

However, the disadvantages of using tax revenues to pay for the HKDL theme park include:

- The huge investment costs would add to the burden of Hong Kong's taxpayers, some of whom may never want to visit HKDL or directly benefit from its development.
- Should the theme park prove to be unsuccessful, then this investment represents a huge waste of government reserves and taxpayers' money.
- Others might question the ethics of a government having such direct involvement in the operation of a for-profit business organization.
- There might also be some environmental concerns over the construction and development of HKDL, e.g. the need to build the theme park on reclaimed land.

The viewpoints and power of key stakeholders (e.g. the Hong Kong government, Disneyland, shareholders, employees, the local community, taxpayers and potential customers) should be considered. The extent to which the HKDL project should be funded partly with taxpayers' money will depend on the relative importance and power of these various stakeholder groups as well as some of the aforementioned factors (such as the state of public finances).

Award 1–2 marks for a vague answer that shows limited understanding.

Award 3–4 marks for explanation of the advantages or disadvantages of using tax revenues to finance a public–private partnership.

Award 5–6 marks if there is examination of a two-sided argument but without a conclusion (i.e. the response does not directly answer the question).

Award 7–8 marks for a thorough discussion that considers the extent to which tax revenues should be used to fund public–private enterprises such as HKDL.

Unit 1.3 Organizational objectives

Question 1.3.1 Vision and mission statements

- (a) 'Mission statement' refers to the declaration of an organization's overall purpose, such as Walt Disney Company's 'To make people happy'. It forms the foundation for setting the objectives of a business.

Award 1 mark for a vague definition that shows some understanding of mission statements.

Award 2 marks for a clear definition that shows an understanding of mission statements.

- (b) The role of vision and mission statements in a business organization includes:

- to have a clear purpose, i.e. what the business is trying to achieve
- outlines the organization's values
- states the underlying purpose of an organization's existence
- serve to unify all people and corporate cultures within the workforce.

Examples from the stimulus material should be applied to the above points.

Award 1–2 marks for a vague answer that shows limited understanding.

Award 3–4 marks for an attempt at examining the role of vision and mission statements in business organizations.

Award up to 4 marks if only vision or mission statements are examined.

Award 5–6 marks for a thorough examination of the role of vision *and* mission statements in business organizations, using examples from the stimulus material.

Question 1.3.2 Lenovo

- (a) Strategy can be defined as the long-term plan of a business in order to reach its organization aims. It gives the organization sense of direction and scope to achieve competitive advantages over the long term.

Market share is a measure of the power that a business has within its industry and is usually measured by calculating the firm's sales revenue as a percentage of the industry's sales revenue.

For each answer:

Award *1 mark* for a vague definition that shows some understanding of strategy/market share.

Award *2 marks* for a clear definition that shows a good understanding of strategy/market share.

(b) It is important for Lenovo to specify its organizational objectives for several reasons, including:

- To provide focus and a sense of purpose for its staff
- To measure the performance of the business
- To inform strategic planning and decision-making
- Credit any other valid point written in the context of Lenovo.

Award up to *2 marks* for each clearly explained reason, up to a maximum of *4 marks*. For full marks, there must be clear application to Lenovo.

(c) Reasons (barriers) that might prevent Lenovo from meeting its objectives include:

- Conflict, e.g. 'Trust and integrity' might place some limits on Lenovo's ability to earn high profits. Alternatively, shareholders might demand high dividends, but management seek to invest profits for the long term.
- Culture clash, e.g. compatibility of Chinese and American cultures, despite Lenovo's commitment to 'Teamwork across cultures'.
- Financial constraints, e.g. sponsorship commitments could harm Lenovo's cash outflow in the short term; any benefits are only reaped in the long run.
- Any other valid reason that is examined in sufficient detail and written in the context of Lenovo.

Award *1–2 marks* for a vague answer that shows limited understanding.

Award *3–4 marks* for an attempt at examining the reasons why Lenovo might not be able to meet its objectives.

Award up to *4 marks* if there is no clear application to the case study.

Award *5–6 marks* for a thorough examination of the reasons why Lenovo might not be able to meet its objectives, using examples from the case study.

Question 1.3.3 McDonald's versus Burger King

(a) Ethical business behaviour means that McDonald's and Burger King operate in a moral (principled) manner, rather than acting purely for commercial gains. Ethical actions, such as improving the wellbeing of children or using humanely sourced meat, would be considered as being ethical and socially responsible behaviour.

Award *1 mark* for a vague definition that shows some understanding, or a definition that is not written in context of the case study.

Award *2 marks* for a clear definition of ethical business behavior written in the context of McDonald's and/or Burger King.

(b) Whether acting ethically can provide McDonald's and Burger King with commercial and competitive advantages will depend on the relative strengths of taking such actions.

Potential advantages of such behaviour include:

- Easier to recruit staff and improved staff retention as employees feel that they work for a socially responsible employer.
- Greater employee satisfaction, morale and motivation, which helps to boost productivity and reduce labour turnover.

- Improved corporate and brand image; particularly important as the image of fast-food chains have been tarnished by health concerns such as child obesity.
- Ethical behaviour is a way of differentiating products and services from rival firms, thereby possibly taking market share from competitors and/or encouraging customer loyalty.
- Local communities are more likely to welcome the fast food companies and pressure groups are less likely to oppose them.
- Ultimately, these factors can, in the long run, lead to improvements in the competitiveness, sales and profits for McDonald's and Burger King.

However, the potential drawbacks of introducing ethical and socially responsible activities include:

- Compliance costs mean that there are additional expenses to both companies, e.g. McDonald's donating funds to help ill children and their families and Burger King having to source their suppliers.
- Higher costs mean that profits margins will fall, unless prices are increased (which is perhaps unlikely in highly competitive markets such as fast food where price is a fundamental deciding factor).
- Since Burger King has also decided to act in an ethical way, albeit by alternative actions, McDonald's might lose any initial competitive advantage that it might have had (but the higher costs remain).
- It is not known whether consumers genuinely care about a firm's ethical policies – what is more important to diners: price and taste of the food or whether the restaurants donate money to charitable organizations?
- Ultimately, these factors are likely to increase the costs to McDonald's and Burger King, thereby possibly leading to lower profit margins for both firms.
- Some stakeholders, such as shareholders, may therefore oppose these activities if they believe that there will be reduced profits overall.

Award 1–2 marks for a generalized answer that lacks detail and/or shows limited understanding.

Award 3–5 marks for an answer with relevant points that are explained but not written in the context of McDonald's and Burger King or if an unbalanced (one-sided) argument is provided.

Award 6–8 marks if there is a good discussion of both the commercial and competitive advantages that ethical business behaviour could bring to McDonald's and Burger King. There should also be consideration of the limitations or drawbacks of taking an ethical approach to business activity. For full marks, a judgement must be made as to whether acting ethically provides McDonald's and Burger King with commercial and competitive advantages.

Question 1.3.4 Walmart

(a) Possible barriers to socially responsible business behaviour might include:

- Compliance costs, i.e. the costs of implementing ethical and socially responsible practices
- Management ignorance, i.e. there is limited awareness of the issues, costs and potential gains surrounding CSR
- Management attitudes, i.e. reluctance to implement strategies that may not reap financial benefits for the firm or its owners
- Conflicting stakeholder interests, e.g. shareholders are likely to place profits before ethics
- Those firms that do not comply may, by default, gain a price advantage
- The opportunity costs involved, i.e. what else the firm could have done with the money used to implement CSR policies.

Award 1 mark for each relevant barrier that is stated, up to 2 marks.

- (b) The question requires candidates to discuss whether Walmart's practices are morally acceptable. Thus, a two-sided argument should be provided. On one hand, some would argue that Walmart make sufficient profits to be able to refrain from damaging the environment and exploiting workers. However, others would argue that it is not the role of a private sector business, owned by shareholders, to protect the environment.

It is also difficult to place a realistic value on the environment and to measure the relative financial benefits of environmental protection versus profits. In particular, shareholders and investors may well question the value of environmental conservation. By placing profit maximization as its key objective, Walmart is more likely to be able to expand and be in a better financial position to look after its employees.

Nevertheless, reasons why Walmart might consider its CSR ahead of its profits include:

- Walmart has already been fined millions of dollars by the US government due to its unethical business practices; so perhaps it is worthwhile to take CSR more seriously.
- The claim that up to 8% of its customers boycotted the company suggests that Walmart can no longer ignore the claims being made in the media.
- A staff turnover rate of 70% is not sustainable in the long run.
- Negative publicity might cause major global repercussions for the high-profile multinational corporation.

Ultimately, the moral dilemma is a subjective one. In order to answer the question, it depends on whose point of view we looked at. Employees will most certainly agree that their wellbeing should be the key objective, whereas shareholders and directors may think differently. It is, after all, the case that not acting ethically does not mean that the firm is necessarily being unethical.

Award 1–2 marks for a generalized answer that lacks detail or limited understanding.

Award 3–5 marks for an explanation that is not written in the context of Walmart or if a one-sided (unbalanced) argument is provided, e.g. if only the merits of putting the environment or the welfare of employees are considered.

Award 6–8 marks for a thorough discussion that considers both sides of the argument. For full marks, the answer considers the perspective of various stakeholder groups and with appropriate application made to Walmart.

Question 1.3.5 Kidzplay Bouncy Castles

Note: The answers below are only suggestions; indeed, a factor that might be perceived as a weakness (e.g. lack of business from the company's website) might also be an opportunity if an alternative viewpoint is taken. What is important is that the candidate explains the answers and lines of reasoning.



- (a) Limited competition in a niche market – this is likely to be an opportunity for Kidzplay Bouncy Castles. This is because competition is an external factor and since the business operates in a niche market, there are opportunities for expansion without the threat of intensive competition.
- (b) Limited business on its newly launched website – this might be considered as a weakness as the factor is, to a large extent, within the control of the business. Kidzplay Bouncy Castles could take a more proactive approach to the online promotion its business.
- (c) Struggling to recruit suitable staff – again this could be seen as a weakness because the firm is unable to hire the right staff. Perhaps there is a need for Kidzplay Bouncy Castles to review its workforce planning and remuneration package.

- (d) Demand in the winter months is weak – this might be perceived as a threat since seasonal fluctuations in demand caused by the weather is beyond the control of the business. Poor weather during the winter in the UK is likely to dampen the demand for the services provided by Kidzplay Bouncy Castles.
- (e) Highly profitable earnings could attract competitors – this is a potential threat to the business since competitors are attracted by the high earnings potential. With a greater number of rivals, Kidzplay Bouncy Castles is likely to lose some market share.

Award up to 2 *marks* for each factor that is clearly explained as being a: strength, weakness, opportunity or threat.

Question 1.3.6 The Ansoff matrix

- (a) Market penetration (Cadbury's trying to capture a larger share of the market) or product development (new products being launched in existing markets).
- (b) Product development (new products by Nissan in an existing market for luxury cars).
- (c) Product development (new products to existing Tesco customers) or diversification (as Tesco has expanded to provide petrol and financial services which are not part of its core competencies).

For each question:

Award 1 *mark* for correctly identifying the growth strategy from Ansoff's matrix.

Award up to 2 *marks* for the reasoning/explanation.

Unit 1.4 Stakeholders

Question 1.4.1 Nokia and Microsoft

- (a) Shareholders are a type of stakeholder who own a stake in limited liability companies. Shareholders invest money in a company by purchasing shares in the business. As the owners of the company, they are also entitled to a share of its profits.

A stakeholder is any person or organization with a direct interest in, and is affected by, the operations of a business, e.g. Nokia's employees, managers, directors and its rivals (such as Apple and Samsung).

Award 1–2 *marks* if the distinction is not very clear and there are omissions in explaining the meaning of stakeholders and stakeholders.

Award 3 *marks* if the answer shows a good understanding of the terms stakeholders and stakeholders, with a clear distinction made. There is accurate use of examples.

- (b) Different stakeholder groups are affected in various ways by Microsoft's takeover of Nokia. For example:
- Shareholders of Nokia will have suffered from the company's market value falling from \$150 billion to \$7.3 billion at the time of the takeover (Nokia's share price dropped by 93%).



- Shareholders of Microsoft will have acquired Nokia, with the potential to earn greater dividends in the future as Nokia presents them with an additional revenue stream.
- Senior managers and directors of Nokia may have lost their jobs due to the takeover and a subsequent restructuring of the new company.
- Employees were transferred to Microsoft in early 2014 (all 32 000 of them), requiring them to adjust to a new corporate culture.
- Rivals such as Apple and Samsung would respond accordingly to Nokia being taken over by Microsoft, in order to maintain their market leadership in the mobile phone industry.
- Accept any other relevant answer written in the context of the takeover of Nokia.

Award 1–2 *marks* for a vague answer that shows a limited understanding of the demands of the question.

Award 3–4 *marks* for an attempt at examining how stakeholders are affected by the takeover, with appropriate use of business management terminology. Award up to 3 *marks* if only one stakeholder group is considered.

Award 5–6 *marks* for a thorough examination of how different stakeholder groups are affected by the takeover of Nokia. There is good application of business management terminology and sufficient detail in the answer.

Question 1.4.2

- (a) External stakeholders are individuals and parties not part of the organization but have a direct interest in its activities and performance, such as customers, suppliers, pressure groups and the government.

Award 1 *mark* for a vague definition that shows some understanding of external stakeholders.

Award 2 *marks* for a clear definition of external stakeholders, with relevant examples used.

- (b) The question requires candidates to examine any two relevant stakeholder groups and how they are affected by the poor performance of a school or college, such as:
- Employees – the morale of teaching and non-teaching staff is likely to fall, especially if there are negative impacts on pay, job security, productivity and labour turnover.
 - Customers – the parents (and students) might become dissatisfied with the quality of teaching and learning, and perhaps look at alternative schools for their children.
 - Local community – schools and colleges play a vital role in influencing house prices and the reputation of the local area, which are likely to suffer in this case.
 - Competitors – other schools in the area are likely to benefit from their rival suffering from poor performance.
 - Government – there may be some government intervention and funding implications due to the poor performance. In extreme cases of poor performance, the government might even close down the school or college.

Therefore, the poor performance of the school will normally have negative impacts on its stakeholders, at least in the short run. Rival schools are perhaps the only exception.

Award 1–2 *marks* for a vague answer that shows a limited understanding of the demands of the question.

Award 3–4 *marks* for an attempt at examining how the poor performance of a school or college might impact on two of its stakeholder groups. Award up to 3 *marks* if only one stakeholder group is considered.

Award 5–6 *marks* for a thorough examination of how the poor performance of a school or college might impact on any two stakeholder groups. There is good application of business management terminology and use of relevant examples.

Question 1.4.3 The Royal Bank of Scotland Group

(a) Shareholders of RBS Group might be concerned about its performance because:

- RBS Group was one of the largest banks in the world, but struggled to survive without the government bailing it out in the global financial crisis.
- The share price of RBS Group dropped from £3.54 to just £0.11, so shareholders would have lost almost 97% of their investment.
- Due to the financial turmoil, RBS Group had to sell its stake in Bank of China, yet did not make any profit from doing so.
- RBS Group's record £24.1 billion (\$39.1 billion) loss in 2008 would concern shareholders about the company's ability to recover and to survive.
- Ultimately, the performance of RBS Group has been poor, suggesting that the bank had not been hugely successful and failed to survive the financial crisis. The company's record losses would clearly have been a concern for shareholders whose return on investment would have plummeted based on its poor performance.

Award 1–2 marks for an answer with one reason clearly explained, or if there is no application made to RBS Group.

Award 3–4 marks for an answer with two clearly explained reasons why the shareholders of RBS Group might be concerned about its performance. There is good application of the stimulus material in the case study.

(b) The extent to which a business like RBS Group should listen to the views of its various stakeholder groups depends on the relative degree of interest and influence of these different stakeholder groups. It is likely that stakeholder conflict will arise. The company will need to take decisions that will address the interests of some stakeholder groups but at the expense of not being able to meet the needs of other groups. For example, selling its stake in Bank of China would please senior managers as RBS Group was facing a liquidity issue, but not being able to make a profit on the sale of the shares would displease the shareholders.

The extent to which RBS Group should listen to the view of its stakeholders will depend on several factors, including:

- The level of power (influence) and interest that the various stakeholder groups have in the organization
- The costs of complying with what the various stakeholder groups demand
- The costs of resolving any conflict that might exist
- The management style and corporate culture will influence decision-making at RBS Group.

Award 1–2 marks for a generalized answer that lacks detail or is presented in a list-like manner with undeveloped points.

Award 3–4 marks if the answer contains good explanations but the answer lacks depth in areas and/or is not written in the context of RBS Group.

Award 5–6 marks for a detailed answer that clearly considers the extent to which RBS Group should listen to the view of its stakeholders. There is good application of business management terminology and relevant application to RBS Group.

Question 1.4.4 Škoda Auto



- (a) External stakeholder groups include:
- Customers of Škoda Auto
 - Suppliers of Škoda Auto's parts and components
 - Competitors of Škoda Auto
 - The Czech and Chinese governments
 - Distributors for Škoda Auto's exports.

Award *1 mark* for each correctly identified external stakeholder, up to the maximum of *2 marks*. Do not award any marks for examples of internal stakeholders (such as employees or Volkswagen).

- (b) Conflict refers to situations where different stakeholder groups have disagreements about certain matters due to discrepancy in their opinions. Examples of conflict at Škoda Auto include:
- Škoda Auto (employer) and its employees over pay and benefits
 - Employees strike action and the consequences on the Czech government and domestic economy (loss of output)
 - Employees securing improved pay and benefits but at the expense of inflationary pressures on the domestic economy, i.e. the repercussions for the Czech government
 - Employees (higher pay and benefits) and shareholders (who demand greater levels of profitability).

Award *1 mark* for correctly identifying a source of conflict between Škoda Auto's various stakeholders. Award up to a further *2 marks* for an explanation of the conflict that is likely to exist.

- (c) It is highly unlikely that Škoda Auto can fulfil the aims of all its stakeholders simultaneously. Therefore, it is likely that Škoda Auto will seek a best fit compromise so that the various stakeholder groups are all reasonably pleased with the outcome of the pay dispute.

Stakeholder mapping can be used to assess the relative interest of Škoda Auto's stakeholders and their relative influence (or power) on the company's behaviour. For Škoda Auto, the map might look something like the following:

		Level of Interest	
		Low	High
Level of influence	Low	Local community	Rival car manufacturers Government
	High	Volkswagen (since Škoda Auto is run independently of VW)	Employees Shareholders

Stakeholder mapping allows the managers at Škoda Auto to assess how to deal with conflicting stakeholder objectives and to prioritise their actions to resolve the conflict. Using this model, it is unlikely that the local community will receive much attention from the decision-makers at Škoda Auto. Conversely, employees will receive the most attention as they are essential to the smooth operation of the business and they have threatened industrial action (i.e. they have a high degree of influence). Pay deals are likely to go through a process of negotiations which aims for a win-win outcome (or a mutually acceptable result) for both employees and the employer. Škoda Auto, for example, might warn that soaring wage claims would be harmful to the company's ability to compete in growing markets such as China, resulting in mass redundancies. The outcome of the negotiations will, of course, depend on the relative bargaining powers of the two parties.

The conflict outlined in part (b) is likely to be developed using a decision-making framework, a CUEGIS framework or a stakeholder mapping tool.

Award 1–2 marks for a vague or bullet point answer that shows limited understanding.

Award 3–4 marks for an unbalanced answer or if there is no application to Škoda Auto.

Award 5–7 marks for a thorough discussion of how the conflict could be minimised. There is application made to the stimulus material. For maximum marks, the conclusion should address *how* the conflict could be minimized.

Question 1.4.5 Royal Dutch Shell

- (a) Stakeholders are individuals and organizations that have a direct interest in the conduct and performance of a business. The **internal stakeholders** are those parties who own or work in the organization, e.g. shareholders, employees, managers and directors of Royal Dutch Shell.



Award 1–2 marks for an imprecise definition that might lack detail and/or indefinite example of a relevant internal stakeholder group. Do not award any marks for a definition or example of external stakeholders.

Award 3 marks for a clear definition of internal stakeholders, with the use of an appropriate example relevant to Royal Dutch Shell.

- (b) There are arguments for and against Royal Dutch Shell allowing environmental and pressure groups to influence its decision making.

Arguments for doing so include:

- Royal Dutch Shell operates in an industry that is heavily monitored by external stakeholder groups such as environmental action groups. Powerful pressure groups such as Greenpeace can exert major influences on the media and internal stakeholders so Royal Dutch Shell might need to consider the interests of these stakeholders in its decision-making process.
- If there is supporting evidence to suggest that environmental and pressure groups can have an unfavourable impact on Royal Dutch Shell's business, then it is more likely to take decisions that comply with the wishes of such stakeholders. In fact, there might be net benefits to Royal Dutch Shell being perceived as a firm that is socially and environmentally responsible, i.e. higher market share and/or improved labour morale.

However, there are arguments as to why large global companies such as Royal Dutch Shell can/should act independently of pressure and environmental groups:

- Royal Dutch Shell's main priorities are to deal with the interests of their internal stakeholders, rather than those of environmentalists and pressure groups.
- Royal Dutch Shell is a private sector organization that operates to satisfy the demands of its owners (the shareholders) and to achieve its organizational objectives. So, it can be argued that it is not the role of Royal Dutch Shell to protect the environment; instead this is the role of the public sector, i.e. the government.
- Adhering to the interests of environmental and pressure groups might ultimately raise the costs (and hence reduce the profits) of Royal Dutch Shell; much to the detriment of its shareholders.

Overall, the extent to which large organizations, such as Royal Dutch Shell, will consider the interests of environmental and pressure groups will depend on a host of factors, such as: the issue/problem at hand, the resources available to tackle the issue/problem, management preferences/intuition, and the degree of public awareness/concern over the activities of the business in question.

Some candidates may use a CUEGIS framework to address this question and to formulate their evaluation, so marks should be awarded accordingly.

Award *1–2 marks* for a vague and generalized answer. Answers may appear in bullet-point form with no or little development.

Award *3–5 marks* for an unbalanced answer or one that does not show evidence of critical thinking/evaluation of the issue. There may be some application made to large organizations such as Royal Dutch Shell. At the bottom end, answers may be one-sided.

Award *6–7 marks* for a balanced argument with a justified conclusion as to the extent to which companies such as Royal Dutch Shell should consider the demands of environmental and pressure groups.

Unit 1.5 External environment

Question 1.5.1 Internal and external constraints

The answer to this question will clearly depend on which option the candidate chooses to tackle. Essentially, the concepts and skills being tested are the same, i.e. candidates should consider both internal and external constraints on the chosen business issue.

An example, for option (c), (Disney's expansion into Shanghai), is illustrated below. The suggested mark scheme applies to all options in this question.

(c) An examination of internal constraints might include:

- Internal funds, e.g. a lack of retained profits to finance the expansion plans
- Resistance from senior staff to relocate to China
- Lack of marketing knowledge to cater for a foreign (Chinese) target market
- Inaccurate or imprecise marketing research data.

An examination of external constraints might include:

- A lack of cultural awareness (diversity)
- Language and communication problems
- Unfamiliarity with Chinese legislation, including employment laws
- Less affluent people, in general, in China compared to USA or Europe
- Existing competition from well-established theme parks in Shanghai.

Award *1–2 marks* for an answer that lacks detail and is too vague and may be presented in a list without any relevance to the issue in question.

Award *3–5 marks* if the examination is sound but lacks detail or substance in certain areas. There is adequate use of business management terminology. Award up to *4 marks* if only internal or external constraints are examined.

Award *6–8 marks* if there is a balanced examination of both the internal and external constraints on the business activity in question. The answer is probing and there is good use of business management terminology, with appropriate application.

Question 1.5.2 Opportunities and threats

Examples of possible issues are shown in the grid below:

	Demographic change	Opportunities	Threats
(a)	Growing number of self-employed people	• Consultation, advisory and supply chain opportunities • Financial services providers are likely to benefit from patronage, e.g. banks and insurance firms • Franchising opportunities as more people wish to become their own boss	• Smaller pool of potential employees/recruits, i.e. labour shortages, thus leading to higher wages having to be paid • Possibly an increase in competition from those who have set up their own businesses
(b)	Increasing number of single-parent families	• Prospects for child-care and related products • Impact on workforce planning, e.g. labour flexibility	• Labour immobility • Relatively low income earners (or lower disposable incomes) • Possible reduction in size of potential labour force
(c)	Parents choosing to have fewer children and at a later stage in their lives	• Career development of female workers • More females opting for full-time employment • Perhaps a greater labour supply in the short term • Higher disposable incomes	• Long-term impacts on related industries, e.g. schools and toy manufacturers • Smaller workforce in the future
(d)	More people graduating with University degrees	• Increased potential pool of skilled and qualified workers • Increased productivity • Higher earners lead to greater spending in the economy	• Higher salaries as firms compete to attract the best workers • Reduced workforce as more people enter higher education (postponed entry to the workforce) • Possibly higher staff turnover as skilled employees tend to be more mobile/headhunted

For each answer:

Award *1–2 marks* for an answer that shows limited understanding or that considers only opportunities or threats.

Award *3–4 marks* for consideration of both opportunities and threats. There is appropriate application of business management terminology and relevant use of examples.

Question 1.5.3 Nintendo and Apple

- (a) Market segment refers to a distinct consumer group or part of the market for a particular product, e.g. children, women, adults, teenagers, the elderly or high income earners.

Award *1 mark* if the answer shows some understanding of 'market segment', although the definition might lack some clarity.

Award *2 marks* if 'market segment' is clearly defined, with the use of an example relevant to the case study.

- (b) The technological environment can present a range of opportunities for hi-tech firms (such as Nintendo and Apple), which include:
- The ability to produce more sophisticated consoles, games and other gadgets (such as the iPod) to appeal to a larger and wider market
 - Quicker product development times; essentially in fast-paced industries where products may have a short product life cycle
 - Marketing opportunities are enhanced with the use of improved technology, e.g. purchasing music online through iTunes
 - Any other relevant factor that is explained in context.

Award *1–2 marks* for a vague answer that lacks detail and/or depth. There may be little, if any, application. The answer may simply be a list of factors without any explanations.

Award *3–4 marks* if there is a sufficiently detailed explanation of how the technological environment can provide opportunities to business organizations. Examples are used and there is relevant application to hi-tech firms.

Question 1.5.4 Zimbabwe's hyperinflation problems

- (a) Award *1 mark* for each relevant/possible cause of inflation in Zimbabwe, such as:
- Cost-push inflation, e.g. caused by soaring fuel and food prices.
 - Demand-pull inflation, e.g. Zimbabwean citizens getting large pay rises (due to the increasing cost of living), thereby fuelling even higher prices.
 - The Zimbabwean government printing more money, thus raising the money supply and reducing the value of its money.
- (b) Uncontrollable inflation can affect businesses in Zimbabwe in several ways, including:
- Reduces the international competitiveness of the economy – this will make it more difficult for Zimbabwean businesses to sell their exports, thereby hindering their success.
 - The level of national output is likely to decline due to soaring costs of production; this will have detrimental effects on businesses in the country.
 - Investment (including foreign direct investment) is likely to decline as business confidence falls. This hampers future business activity in Zimbabwe.
 - Standards of living are likely to fall, causing further social and economic problems for the poverty-ridden country, again negatively affecting businesses.

Award *1–2 marks* if the answer is rather vague or unexplained, i.e. shows little understanding of the effects of uncontrollable inflation on businesses.

Award *3–4 marks* if the effects of uncontrollable inflation are examined, but the answer lacks detail and/or is rather generalized. There is some use of relevant business management terminology.

Award 5–7 marks if there is a detailed discussion of the effects of uncontrollable inflation on businesses in Zimbabwean. There is good use of relevant business management terminology, with application of the stimulus material.

Question 1.5.5 JKL Jeans

- (a) Deduct 1 mark for each error, up to the maximum of 4 marks, but apply the Own Figure Rule (error carried forward) as appropriate.

Exchange Rate	Purchase cost (\$)	Purchase cost (£)	Sales revenue (£)	Profit or Loss (£)
£1 = \$0.75	300 000	400 000	300 000	(100 000)
£1 = \$1.00	300 000	300 000	300 000	0
£1 = \$1.50	300 000	200 000	300 000	100 000
£1 = \$2.00	300 000	150 000	300 000	150 000
£1 = \$2.50	300 000	120 000	300 000	180 000

- (b) There is a positive relationship between the exchange rate and the level of profits for JKL Jeans. For example, when the exchange rate (for pounds sterling) rises from \$1 to \$2, the profit rises from zero (break-even) to £150 000 because JKL Jeans is able to purchase from its US supplier at a lower rate.

Award 1 mark for a brief commentary that shows a vague idea about the relationship between changes in the exchange rate and the level of profits, or if there is no use of the data in the table.

Award 2 marks for an answer that shows an understanding of the relationship between changes in the exchange rate and the level of profits and there is use of the given data.

- (c) Costs of engaging in international trade include:
- Tariffs imposed on the import of American jeans
 - Transportation costs for the jeans being shipped in from the USA
 - Insurance for the stock being transported from overseas.

Award up to 2 marks for explaining each relevant cost of engaging in international trade, up to the maximum of 4 marks. For maximum marks, there must be appropriate application to JKL Jeans.

- (d) A high exchange can create an opportunity for JKL Jeans because the costs of importing its stocks of jeans will fall. As the £ strengthens against the \$, JKL Jeans will be able to purchase the same quantity of stock for a lower cost, e.g. as the £ strengthens from \$1 to \$2, the purchase costs in terms of sterling will halve. This means that the profit margins of JKL Jeans should increase.

However, a stronger currency can also present threats if the business exports its products. A stronger currency means that the price of jeans sold by *JKL Jeans* overseas will automatically increase. This makes its exports less price competitive (through no fault of its own).

Award 1–2 marks for a generalized answer that is descriptive or lacks substance. There is some understanding that a high exchange rate can present an opportunity or a threat to businesses.

Award 3–4 marks for an examination of how JKL Jeans is affected by changes in the exchange rate. At the lower end, there is an unbalanced answer that lacks details.

Award 5–6 marks for a thorough examination of both an opportunity and a threat of higher exchange rates for JKL Jeans. Appropriate business management terminology is used with reference to the case study.

Question 1.5.6 Amoy Food

- (a) The term 'brand' refers to the use of an exclusive name, symbol or design to identify a specific product or organization, such as 'Amoy'. It is used to differentiate a product from similar ones offered by rival firms.



Award 1 mark if the answer shows some understanding of 'brand', although the definition might lack some clarity.

Award 2 marks if 'brand' is clearly defined, with the use of an example relevant to the case study.

- (b) Unethical behaviour is not necessarily illegal, although it is often difficult to separate the two. Amoy Food acted unethically by misleading customers into believing that its products were free from MSG, i.e. by making false advertising claims. However, some might argue that the traces of MSG found in Amoy Food's products were not deliberate; although this could raise issues about quality assurance. Amoy Food also acted illegally because of the potential health issues arising from its wrongdoing, given that Hong Kong enforces laws against the false labelling and advertisement of food products.

Award 1–2 marks for a generalized answer that is descriptive or lacks substance.

Award 3–4 marks for an explanation of how Amoy Food acted unethically and unlawfully, although the distinction is not made clear at the bottom end. Some examples are given or there is some reference to Amoy Food.

Award 5–6 marks for a clear explanation of how Amoy Food might have acted both unethically and unlawfully. Relevant examples are used in the context of Amoy Food, with reference to the stimulus material.

Question 1.5.7 Walmart

- (a) **Discrimination** refers to the negative prejudice against, or intolerance with, a particular trait. Examples include discriminating against people because of their race, religion, sexual orientation, physical appearance or gender (as in the case of Walmart).

Award 1 mark for a vague understanding of 'discrimination'.

Award 2 marks if the concept of 'discrimination' is clearly understood with appropriate use of business management terminology and relevant examples.

National minimum wage refers to the legal requirement for all employers, such as Walmart, to pay their workers at least the amount stipulated by the law, e.g. \$7.25 per hour.

Award 1 mark for a vague understanding of 'national minimum wage'.

Award 2 marks if the concept of 'national minimum wage' is clearly understood with appropriate reference to the case study.

- (b) It is important to observe and adhere to labour laws such as rest breaks. Not only does this directly affect the productivity of the workforce, there will also be a knock-on effect on staff morale if sufficient breaks (a hygiene factor) are not given. As a minimum compensation, workers who are asked to work overtime, perhaps during their usual rest breaks, should be paid a premium rate. In the case of Walmart, the discriminatory employment practices led to lawsuits that amounted to \$78 million.

The case study also points out the importance of adhering to equal opportunities legislation, i.e. paying men and women the same rate of pay for equal work. Male workers should not be offered promotion over women simply because of their gender. If a woman is better suited for the job, then it makes business

sense to offer the position to her. Not only is this fair but it also suggests that business-decision making is more rational.

Finally, with all the negative publicity it is likely that the corporate image of *Walmart*, both as an employer and as a retailer, would have been somewhat damaged.

Despite the potential to save money by 'cutting corners' (i.e. not complying with labour laws), in the long run the financial penalties and detrimental impacts on the organization mean that it is perhaps best for large companies such as Walmart to be aware of and comply with the legal environment.

Award 1–2 marks for a vague and generalized answer that lacks substance and/or development.

Award 3–4 marks if a descriptive answer is provided with little or no application shown. At the lower end, answers may appear in a list-like form with limited development.

Award 5–6 marks if there is good examination of the reasons for being aware of the legal environment. There is appropriate use of business management terminology, with application to Walmart. However, there is no evaluation or justification in the answer.

Award 7–8 marks if justification of the need to be aware of the legal environment is provided. There is good use of business management terminology with application to Walmart, and evidence of critical thinking.

Unit 1.6 Growth and evolution

Question 1.6.1 Small versus large

- (a) Economies of scale might not always benefit customers, such as in the following cases:
- Economies of scale can only be achieved with high volume output (quantity), but this might be detrimental to the quality and/or variety of output
 - Economies of scale can act as a barrier to entry, thereby creating a less competitive market, i.e. the development of monopolies and restrictive trade practices in the long run
 - With large scale operations, there tends to be less personal attention to customer care
 - To achieve economies of scale requires an increase in productivity and/or productive capacity; which puts huge burdens and stresses on the business without a focus on customer relations
 - Any other valid explanation.

Award 1–2 marks for a vague answer that lacks detail and/or depth. The answer may be presented in a bullet point list without sufficient explanation. Award up to 2 marks if only one circumstance is explained.

Award 3–4 marks if there are good explanations of two circumstances when customers do not necessarily benefit from economies of scale. Relevant examples are used with appropriate use of business management terminology.

- (b) Economies of scale might be inappropriate, undesirable or inaccessible for certain businesses because:
- Some businesses, especially sole traders, might wish to keep tight control and ownership of their business. Hence, large scale operations may prove to be inappropriate and/or undesirable.
 - Similarly, some firms do not participate in large scale production (e.g. those that operate in niche markets or those that require job production) so economies of scale become inaccessible to them. Instead they may focus on specialization and the uniqueness of the product.
 - Some firms might choose to limit their output in order to avoid cash flow crises or over-trading, and hence there is limited access to economies of scale.

- Some businesses, such as Ferrari and Rolex, will focus primarily on the quality, rather than the quantity, of the product. This therefore limits the economies of scale that the firm can access. It is also undesirable for such firms to produce more simply to have lower costs (such luxury products are perceived to be of extremely high quality).

Award 1–2 marks for a vague answer that lacks detail, depth or relevance. The answer may be presented in a bullet-point list without sufficient depth of explanation.

Award 3–4 marks if there are good explanations of the circumstances surrounding the inappropriateness, undesirability and inaccessibility of economies of scale for some businesses.

(c) Small firms might continue to survive, despite the lure of economies of scale, because:

- Small firms may operate in niche markets that do not tend to be of interest to larger businesses, so they are able to survive.
- They offer a local, flexible and personal service to their customers.
- There are low barriers to entry (e.g. set-up costs), thereby reducing the risks for setting up and running such small businesses.
- They may have better cost control due to their smaller-scale operations (large firms can experience diseconomies of scale).

Award 1–2 marks for a generalized answer that lacks detail of why small firms can survive and thrive despite their inability to exploit economies of scale.

Award 3–4 marks for a good examination of two or more factors, with some understanding of why small firms can survive and thrive, even in the absence of economies of scale. However, the answer lacks substance and/or the use of examples.

Award 5–6 marks for a thorough examination of two or more factors, with a detailed understanding of why small firms can survive and thrive, even in the absence of economies of scale. There is sound use of business management terminology and application of relevant examples.

(d) It is debatable whether large firms (always) act in the best interest of the general public. Large firms can exploit the public in several ways, including:

- The creation of barriers to entry in order to protect themselves from potential competition, thereby making the industry less competitive. This would result in less price and non-price competition, which can be detrimental to the public. By contrast, rivalry tends to lead to more competitive prices whilst increasing the quality and availability of a variety of products.
- Taking advantage of their monopoly power, for example by using price discrimination to charge one market segment a higher price in order to maximize their own profits.

On the other hand, large firms can benefit the public in other ways, such as:

- Large firms being able to exploit economies of scale which protects domestic firms from foreign competition (and hence protects domestic employment).
- They may be the only firms that have the necessary financial and human resources to undertake research and development. Smaller firms tend not to have the required resources to invest in R&D and innovation.
- Competition can be wasteful in some industries, such as excess packaging and confusing pricing policies to sell mobile phone packages. Hence, it makes sense for these large firms to strive to provide a better product, with greater value for money.

The extent to which these large firms operate in the best interest of the public will depend on many factors, including:

- The nature and scope of barriers to entry, and hence the potential for competition.
- The values and visions of the organization.
- The extent to which the government plays an active role in controlling the power of large firms (monopoly power).

Award 1–2 marks for a generalized answer that lacks detail or is presented in a list-like manner with undeveloped points.

Award 3–5 marks if the answer contains good explanations but the answer is not written in the context of the wellbeing of the general public or if there is a one-sided (unbalanced) argument.

Award 6–8 marks for a well-balanced answer that considers both the costs and benefits of large businesses, with reference to the interest of the general public. There is good application of business management terminology and relevant use of examples. At the higher end, there is clear evidence of evaluation.

Question 1.6.2 Hoang Anh

(a) Reasons why banks might be reluctant to fund the expansion plans of Hoang Anh include:

- The market for cultural art and craft products is relatively small, so represents a large risk for financiers
- The business was founded in 2012, so could lack brand recognition and may not have any form of brand loyalty
- Unfamiliarity with doing business in overseas countries such as Laos and Cambodia
- Banks would need a lot more information than is provided in the case study about Hoang Anh, e.g. its sales figures, market share, size of the workforce, profit and value of its collateral
- Ultimately, banks may not find it financially worthwhile to lend to small firms such as Hoang Anh due to the level of risk involved.



Award 1 mark for each reason, up to the maximum of 2 marks.

(b) Problems that Hoang Anh might encounter when operating in new overseas markets include:

- A lack of local knowledge about customer tastes, habits and etiquette in Laos and Cambodia
- Cultural issues (such as ethics and language) also need to be considered when operating in overseas markets, from a range of perspectives including customers, employees and governments
- Legal issues need to be considered as Laos and Cambodia operate different legal systems from Vietnam.

Candidates may use a STEEPLE or CUEGIS framework to tackle this question (although only two elements are required), so should be awarded accordingly.

Award 1–2 marks for a vague answer that lacks detail and/or depth. The answer may be presented in a bullet point list without sufficient explanation. Award up to 2 marks if only one problem is explained.

Award 3–4 marks if there are good explanations of two problems encountered when operating in new overseas markets. Relevant examples are used with appropriate use of business management terminology.

Note: there is no requirement for candidates to know about doing business in Laos and Cambodia.

Question 1.6.3 A.S. Watson Group

- (a) A.S. Watson Group is likely to be classified as a conglomerate. This is because the firm has a diversified portfolio of businesses that operates in dissimilar industries, e.g. personal care, consumer electronics, supermarkets and beverages.

Note: accept answers that accurately outline A.S. Watson Group as a multinational corporation (e.g. ‘with operations in 33 markets worldwide.’)

Award 1 mark for a vague answer that displays some understanding of the type of business organization operated by A.S. Watson Group.

Award 2 marks for an answer that shows a clear understanding of the type of business organization operated by A.S. Watson Group, with evidence from the case study.

- (b) Synergy is defined as the whole being greater than the sum of the parts when two or more operations are combined. Synergy brings about both greater output and efficiency. By operating under the A.S. Watson group name, all subsidiaries can benefit from improved corporate planning, communication, marketing, distribution and production processes. Hence, the group can benefit from huge economies of scale across the whole of its diversified operations.

Award 1–2 marks if some understanding of synergy is shown, although the answer might lack explanation or application to A.S. Watson Group.

Award 3–4 marks for a clear definition of synergy with an explanation of how A.S. Watson Group might benefit from it. There is appropriate application of business management terminology and relevant use of examples.

- (c) A.S. Watson Group may continue to strive for growth, despite its already enormous size, for several reasons, including:
- Greater economies of scale to further reduce unit costs, thus improving its competitiveness and profitability
 - To gain greater monopoly/market power and to be in a better position to compete against its closest rivals
 - Expanding into non-Asian economies to benefit from an even larger customer base, and to spread its risks
 - Any other relevant reason that is examined in the context of A.S. Watson Group.

Award 1–2 marks for a generalized answer that is descriptive or lacks application. There is some understanding shown.

Award 3–4 marks if there is an examination of the reasons for A.S. Watson Group’s long-term growth strategy, but the answer may lack sufficient detail or substance.

Award 5–6 marks if there is a thorough examination of the reasons for A.S. Watson Group’s pursuit of growth as part of its long-term strategy. Appropriate business management terminology has been used with reference to the case study.

Question 1.6.4 Poundland

- (a) Organic growth, or internal growth, can be defined as the growth of an organization when a business grows using its own capabilities and resources to increase the scale of its operations and sales revenue.

Award 1 mark for a vague answer that displays some understanding of the term ‘organic growth’.

Award 2 marks for an answer that shows a clear understanding of the term 'organic growth', with an appropriate example used.

(b) Methods of organic growth that *Poundland* might have used include:

- Effective pricing strategy – selling every product for £1 or less has attracted a huge number of customers to its stores, especially following the prolonged recession from 2008
- Effective promotion and marketing strategies used to entice customers to Poundland
- Selling a wider range of products helps to attract more customers away from more established retailers such as supermarkets
- Capital expenditure used to improve the physical environment and customer experience at Poundland stores
- Offering better perceived value for money to customers
- Accept any other reasonably argued method of organic growth, described in the context of Poundland.

Award 1–2 marks for a vague answer that lacks detail and/or depth, but with some understanding shown.

Award 3–4 marks if there is a good description of two methods of organic growth that Poundland might have used. Relevant examples and business management terminology are used.

(c) Whether organic growth is desirable for a business such as Poundland depends on several factors, including:

- Candidates should consider the advantages of organic growth such as:
 - Better control and coordination, e.g. Poundland focuses on organic growth in Ireland, the Netherlands and the UK
 - Relatively inexpensive, which is part of the reason for Poundland's annual growth in profits of up to 29%
 - Maintains corporate culture
 - Less risky.
- However, there are also potential drawbacks of organic growth, such as:
 - Dilution of control and ownership
 - A possible need to restructure the organization
 - Diseconomies of scale
 - Slower growth as organic growth is slower than external growth.
- Candidates may also consider the relative benefits of inorganic (external) growth, and should be credited accordingly.

Award 1–2 marks for a generalized answer that lacks detail or is presented in a list-like manner without sufficient explanation.

Award 3–5 marks if there is sufficient examination of some reasons why organic growth might be desirable for businesses. The answer might also lack depth and appropriate use of business management terminology. At the top end, there is relevant application to the case study.

Award 6–7 marks if there is a good discussion that considers the extent to which organic growth is desirable for a business such as Poundland. Appropriate examples are used, with suitable use of business management terminology. There is evidence of critical thinking.

Question 1.6.5 Sale of London Taxi International

- (a) An acquisition, or takeover, occurs when a company buys a controlling interest in another firm, i.e. it buys enough shares in a target business to hold a majority and controlling stake.

Award 1 mark for a vague definition that shows some understanding of the meaning of the term 'acquisition'.

Award 2 marks for a clear definition that shows a good understanding of the meaning of term 'acquisition', including a relevant example.

- (b) Winner from Geely's takeover of LTI include:

- Geely itself for being able to buy an iconic and global brand for just £11.4 million (\$18.6 million)
- LTI itself as the business had already gone into administration after 5 years without making any profits, so the takeover offered the company a lifeline
- Employees whose jobs were safeguarded as production remained in the UK and those rehired following job losses imposed by LTI
- Geely employees in Shanghai who build taxis for the left-hand drive market.

Losers from Geely's takeover of LTI include:

- Owners and shareholders of LTI who were forced to sell their business following 5 years without making any profits
- Senior managers at LTI are likely to lose their jobs or have less input/control following the takeover and an organizational restructure
- Employees during the takeover would have faced huge uncertainties and experienced anxiety, stress and perhaps health problems.

Award 1–2 marks for a vague answer that lacks depth/detail. The answer might appear as a list of unexplained points.

Award 3–4 marks if both winners and losers are examined, although the answer might lack some depth. There is limited use of business management terminology and/or poor use of examples from the case study.

Award 5–6 marks if both winners and losers are examined in depth. There is good use of examples from the case study and there is proficient use of business management terminology.

- (c) The driving forces behind Geely's strategic move to acquire LTI include:

- An opportunity to purchase a globally recognized and iconic brand (the London black taxi)
- A bargain price of 'just £11.4 million (\$18.6 million)' for acquiring the LTI company
- Geely could be seen as a 'white knight' in taking over a company that had gone into administration with huge job losses
- The opportunity to grow the business in Shanghai and possibly other areas of China
- To gain access to a market that was not previously exploited by Geely
- To grow and diversify Geely's product portfolio of motor vehicles
- Accept any other reasonable driving force, discussed in the context of Geely.

Award 1–2 marks for a generalized answer that lacks detail or is presented in a list-like manner.

Award 3–5 marks if there is sufficient explanation, but the answer might not be written in the context of Geely and/or the answer lacks depth.

Award 6–8 marks for a good discussion that considers the driving forces behind Geely's strategic decision to acquire LTI. There is good use of business management terminology and notable application of the stimulus material in the case study.

Question 1.6.6 Disney's takeover of Pixar

- (a) The term 'integration' is the collective term for mergers and acquisitions (M&As), where there is an amalgamation of two or more firms to form a new larger organization, such as the integration of Pixar and Disney.

Award 1 mark for a vague definition that shows some understanding of the meaning of integration.

Award 2 marks for a clear definition that shows a good understanding of the meaning of integration, including a relevant example.

- (b) Potential problems experienced by businesses during an acquisition include:
- Loss of control – there may be some conflict surrounding the loss of control, e.g. Pixar executives having less of a say than Disney executives
 - Culture clash – the way that Pixar and Disney employees work and the different cultural norms within the organizations may create some tension and therefore barriers to the acquisition
 - Takeovers can be hostile in nature and this further presents problems for any acquisition
 - Redundancies – there will need to be effective change management (and perhaps crisis management) in dealing with potential redundancies caused by the takeover
 - Any other appropriate problem that is accurately examined.

Award 1–2 marks for a vague answer that lacks depth/detail. There might only be consideration of one potential problem.

Award 3–4 marks if two potential problems are explained, although the answer might lack some depth at the lower end. There is limited use of business management terminology and/or poor use of examples.

Award 5–6 marks if two potential problems are examined in depth. There is good use of examples (perhaps from the case study) and there is proficient use of business management terminology.

- (c) Disney might choose to acquire other firms, such as Pixar, in order to benefit from external growth. These benefits include:
- Increased sales revenue and more revenue streams
 - Increased market share
 - Greater customer base
 - Economies of scale
 - Synergies
 - Diversification (exploiting Pixar's core competencies)
 - Defensive/survival strategy
 - Diversification/the spreading of risks
 - Reduced competition
 - However, for a coherent discussion, there should be consideration of the potential drawbacks of Disney's takeover strategy.

Award 1–2 marks for a generalized answer that lacks detail or is presented in a list-like manner.

Award 3–5 marks if there is sufficient explanation, but the answer might not be written in the context of Disney or if there is a one-sided (unbalanced) argument provided.

Award 6–8 marks for a good discussion that considers the benefits of Disney's takeover strategy. There is also consideration of some of the pitfalls and evidence of evaluation/critical thinking at the upper end.

Question 1.6.7 Sony Ericsson

- (a) A joint venture is a method of external growth that involves two or more businesses agreeing to split the costs, risks, control and rewards of a business project by setting up a new (separate) legal entity. For example, Sony and Ericsson came together in 2001 to establish Sony Ericsson as a new business.

Synergy is defined as the whole being greater than the sum of the parts when two or more operations are combined. Synergy brings about both greater output and efficiency. By operating as Sony Ericsson, the newly formed company can benefit from improved corporate planning, communication, marketing, distribution and production processes. In particular, Sony benefits from its partner's technological knowledge in the communications industry whilst Ericsson benefits from Sony's consumer electronics expertise.

Award 1–2 marks if there are some omissions or lack of clarity in the definitions. Appropriate examples/application may be missing.

Award 3–4 marks if both terms are correctly defined. At the top end, examples related to the case study should be used.

- (b) A merger between the two companies may not be appropriate because:
- Sony and Ericsson would have to lose their (separate) corporate identities; something that neither organization was prepared to do. Sony, for example, produces a broad range of consumer products and not just mobile phones. By merging with Ericsson, Sony might lose its status as a leading manufacturer of consumer electronics products – something the company was not willing to do.
 - Mergers are far more expensive and cumbersome (in an administrative sense) than joint ventures.
 - Joint ventures have a very high success rate. By contrast, mergers of firms in completely different sectors can create huge problems for the restructured organization.
 - Any other relevant reason why a merger between Sony and Ericsson (rather than a joint venture) may not have been appropriate.

Award 1–2 marks if there is a generalized answer, which might lack depth and/or substance or if only one reason is explained. There is no or little application shown.

Award 3–4 marks for a detailed explanation of why a merger between Sony and Ericsson would probably have been inappropriate. For maximum marks, there is good reference made to the case study and appropriate use of business management terminology.

- (c) Benefits of a joint venture to Sony and Ericsson include:
- The joint venture allows both companies to retain their separate corporate identities (consumer electronics for Sony and telecommunications for Ericsson).
 - Synergies – for example, Sony can benefit from Ericsson's expertise in tele- and data communications systems, whilst Ericsson can benefit from the marketing power of Sony.
 - Risks are reduced – for instance, Sony does not need to invest in an industry that it has no expertise in because the investment costs and risks are shared with Ericsson.
 - Increased market power – the joint venture provides both firms with a presence in the market, thereby allowing Sony Ericsson to establish itself in an industry with intense competition and high entry barriers.
 - High probability of success – the joint venture is built on a philosophy of trust and cooperation and the desire for both firms to succeed in establishing the new organization. By contrast, a merger or acquisition may have easily failed due to management conflict and culture clashes.
 - Any other relevant reason that is examined in the context of Sony Ericsson.

Award 1–2 marks for a generalized answer that lacks detail or is presented in a list-like manner without sufficient explanation.

Award 3–5 marks if there is sufficient explanation of some benefits of a joint venture but the answer might not be written in the context of Sony Ericsson. The answer might also lack depth and appropriate use of business management terminology.

Award 6–7 marks if there is a good examination that examines the benefits of the joint venture to both Sony and Ericsson. Appropriate examples are used, with suitable use of business management terminology.

Question 1.6.8 Pizza Hut

(a) Pizza Hut may have decided to use franchising as its main growth strategy due to the benefits of franchising, which include:

- Franchising is a quick method of external growth, allowing Pizza Hut to become the world's largest pizza chain
- It allows Pizza Hut to reap financial benefits (franchise fee and royalty payments) without directly risking their own capital in the expansion plans
- Franchising tends to be less risky than organic growth
- It is also a relatively cheap method of external growth
- Franchisees are screened and carefully selected (they should have a proven record of success) so there is minimal risk for Pizza Hut
- Since the franchisee has the incentive to be successful, this is more likely to facilitate Pizza Hut's expansion plans.



Award 1–2 marks for a vague answer that lacks detail and/or depth, but with some understanding shown.

Award 3–4 marks if there are good explanations of two reasons why Pizza Hut might have used franchising as its main method of growth. Relevant examples and business management terms are used.

(b) Franchising as a growth strategy has its potential problems:

- There is risk in relying only on franchising; with such a large network of franchised restaurants, coordination and oversight of these (independently owned) stores becomes increasingly difficult. The organization may subsequently suffer from diseconomies of scale.
- Independent franchisees can potentially harm the image and reputation of Pizza Hut as a whole company.
- Mergers and acquisitions, although more expensive, can be a faster method of growth for Pizza Hut.
- Rival businesses, such as Pizza Box and Pizza Express, also use franchising as a method of growth; so Pizza Hut will need to pursue other growth strategies to maintain its status as the leading chain of pizza restaurants.

Award 1–2 marks for a generalized answer that is descriptive or lacks substance. There is some understanding shown.

Award 3–4 marks if there is an examination of potential problems of franchising, but the answer might lack detail and/or application to Pizza Hut.

Award 5–6 marks if there is a thorough examination of the potential problems of franchising (as a method of growth) for Pizza Hut. Appropriate business management terminology has been used with reference to the case study.

Question 1.6.9 McDonald's

- (a) Sales revenue can be defined as the proceeds from selling goods and/or services, per time period. For example, McDonald's restaurants receive money from customers who purchase fast food. This money is used to pay for the running of McDonald's, and any funds left over is classed as profit.

Award *1 mark* for a vague definition that shows some understanding of the meaning of sales revenue.

Award *2 marks* for a clear definition that shows good understanding of the meaning of sales revenue.

- (b) Possible problems created by the critics of McDonald's include:

- McDonald's being blamed for fuelling or causing child obesity
- The negative publicity could damage its corporate image
- There could be a decline in the global sales of McDonald's, especially from concerned parents
- Possible negative impacts on human resources (staff recruitment, staff morale and staff retention).

Award up to *2 marks* for each potential problem that is outlined in the context of McDonald's, up to the maximum of *4 marks*.

- (c) Possible reasons for the growth in McDonald's global sales include:

- A favourable economic climate in USA, Russia, Japan and Europe thereby boosting its global sales.
- A revamped menu (salads and other healthier options) thereby helping to attract a broader range of customers.
- Changing customer perceptions of the food at McDonald's by publishing and publicizing nutritional information about its products.
- Continued growth through its franchise expansion strategy means that McDonald's continues to have a greater global presence, thus helping to raise its sales revenues.
- Any other relevant reason that is explained in the context of McDonald's.

Award *1–2 marks* for a vague answer that lacks depth/detail. There might only be consideration of one possible reason.

Award *3–4 marks* if two plausible reasons are explained, although the answer might lack depth at the lower end. There is little, if any, application or use of relevant examples.

Award *5–6 marks* if two likely problems are examined in depth. There is good use of examples, written in the context of McDonald's and there is proficient use of business management terminology.

- (d) The extent to which the fast food industry might be considered as being globalized depends on the relative strengths of the arguments put forward. On the one hand, fast food could be considered to be highly globalized as an industry because:

- The rapid expansion and presence of restaurant chains throughout the world, such as McDonald's, Burger King, Pizza Hut and KFC, have meant that fast-food is available in almost every country.
- McDonald's record global sales and revamped menus around the world also suggest that fast-food is a globalized industry.
- As a cultural export, the American burger and fast-food meal is a huge earner for multinational companies from the USA.
- The most well-known fast-growing multinational companies all use franchising as a method of growth, meaning that such organizations can produce and sell the same foods and drinks simultaneously in different countries.

- On the other hand, the fact that even the most ‘globalized’ fast-food chain has to adapt its menus to local tastes suggests that the fast-food industry not so globalized. In addition, growing public concerns over the nutritional value of fast-food meals also suggests that firms such as McDonald’s have yet to fully exploit the benefits of globalization.

Award 1–2 marks for a vague and generalized answer that might appear in bullet-point form with no or little development.

Award 3–4 marks if the answer is one-sided or lacks detail in areas, with minor or no reference made to the case study.

Award 5–6 marks if there is an examination of the extent to which the fast food industry might be globalized, although the answer lacks evaluation of the issue. Appropriate application is evident.

Award 7–8 marks for a two-sided argument with a justified conclusion of the extent to which the fast-food industry might be considered as a globalized one. There is good application to organizations such as McDonald’s. Appropriate examples and business management terminology have been used.

Question 1.6.10 Bollywood

- (a) Globalization can be defined as the growing integration and interdependence of the world’s economies. It has led national economies to integrate towards a single global economy, where consumers have ever-increasingly similar habits and tastes, and a blurring of traditional national cultures.

Award 1 mark for a vague definition that shows some understanding of the meaning of globalization.

Award 2 marks for a clear definition that shows a good understanding of the meaning of globalization, possibly including relevant examples.

- (b) Knowledge and awareness of local cultures can be argued to be important aspects of successful global businesses because:
- They can prevent inappropriate, offensive and embarrassing strategies being adopted in overseas markets.
 - A lack of awareness and understanding could mean firms fail to secure deals or contracts with overseas clients.
 - It can help to communicate the correct messages to different customers in different regions of the world.

Hence, it is likely that knowledge and awareness of local cultures are increasingly important, although the globalization of and access to information (media coverage) has reduced the culture gap that may have existed previously. Furthermore, other issues are also important for global businesses to be successful, such as knowledge and awareness of local business laws. In essence, an awareness and understanding of the business context, the people involved and the ethics of different parts of the world should facilitate more successful deals for global businesses. Such an awareness and understanding can ultimately give an organization a competitive advantage in an ever-competitive business world.

Award 1–2 marks for a generalized answer that lacks substance or is presented in a list-like manner.

Award 3–5 marks if there is a sufficient explanation, although the answer lacks some detail. At the lower end, the answer might be simply descriptive with a lack of depth.

Award 6–7 marks for a thorough discussion of the view that knowledge and awareness of local cultures are an important feature of successful global businesses. There is appropriate use of business management terminology, application of relevant examples and evidence of critical thinking.

Question 1.6.11 Carlsberg



- (a) A multinational business is an organization such as Carlsberg that operates in two or more countries, usually with its Head Office based in the home country (Denmark in this case). As Carlsberg has operations in Russia and Eastern European countries, it is a multinational business.

Award 1 mark if the answer outlines the meaning of a multinational business.

Award 2 marks if the answer uses evidence from the case study to suggest why Carlsberg is a multinational business.

- (b) Reasons for Carlsberg's decision to expand overseas include:
- To increase its customer base – Carlsberg's traditional Western European markets are stagnant and therefore the company is seeking to expand to new (and possibly larger) markets such as Asia.
 - Economies of scale – A larger degree of beer production is likely to reduce the average costs of production for Carlsberg as it benefits from marketing, financial and technological economies of scale.
 - Asia and Eastern Europe may present opportunities for Carlsberg to employ a cheaper labour force and to cut its production costs.
 - Avoid protectionist measures – Carlsberg could get around protectionist measures such as tariffs, quotas and administrative trade barriers by locating directly in countries imposing such obstacles. Eastern European and Asian countries belong to different regional trading blocs from Denmark, so expanding its operations in these markets can resolve potential conflicts.
 - To spread risks – Carlsberg might wish to expand overseas to reduce the financial risks of their established markets facing decline, perhaps due to a regional economic decline, stagnant markets or changing habits and trends. By contrast, operating in new markets could present many opportunities for the Danish beer company.
 - Another other relevant reason that is explained in the context of Carlsberg.

Award 1–2 marks if the answer explains why Carlsberg chose to expand in overseas markets, although the response might lack of depth and clarity. Appropriate examples/application might be missing.

Award 3–4 marks if two reasons are clearly explained as to why Carlsberg chose to expand in overseas markets. At the top end, examples related to the case study are used, and there is good application of business management terminology.

- (c) The market for beer may have become globalized due to driving forces such as:
- Sponsorship deals from beer producers, such as Carlsberg, have marketed beer on an international scale.
 - Beer as a Western European cultural export has made inroads across Russia, Eastern Europe and beyond.
 - MNCs, such as Carlsberg, expanding into overseas markets have introduced beer in these new markets, such as Myanmar.
 - In striving to achieve growth, multinational companies such as Carlsberg have expanded operations in overseas markets thereby helping to make beer a globalized product.
 - Intensive competition in the beer industry may also have fuelled Carlsberg's presence in international markets.
 - The liberalization of trade around the world may have led to beer exports being made available across the globe.
 - Increased travel and tourism leading to beer being made available on air flights and in hotels, bars and restaurants around the world.

- Media exposure, e.g. football and the wide publicity of alcohol in movies/TV/music videos/internet.
- Any other relevant reason explained in the context of Carlsberg and/or the beer industry.

Award *1–2 marks* if the answer outlines one or two factors that may have led to the globalization of the beer market, or if the answer appears as an unexplained list of factors. Appropriate examples/application might be missing.

Award *3–4 marks* if two reasons that may have led to the globalization of the beer market are clearly explained. Relevant examples related to the case study are used, with appropriate application of business management terminology.

(d) There are potential threats to Carlsberg operating in overseas markets, which include:

- A lack of local knowledge and local culture can create problems, e.g. religious views on drinking, or using sexual innuendos to promote drink/alcohol
- Diseconomies of scale may arise for Carlsberg if it is unable to control its costs of overseas expansion
- Regulatory issues and problems in setting up Carlsberg's overseas operations
- Varying political and economic conditions in foreign countries can limit the extent to which Carlsberg can prosper overseas, e.g. the need to have a local partner (joint venture) agreements in certain countries such as India, China and Myanmar
- Competing with a well-established local producers (e.g. China's Tsingtao Beer) can also limit the success of Carlsberg's overseas operations
- Greater demands on and scrutiny of Carlsberg's corporate social responsibilities, especially in less economically developed countries or countries that have a more reserved approach to alcohol/drink
- Greater uncertainties and risks due to overseas expansion, e.g. the impact of exchange rates on costs, prices and profits
- Issues regarding human resources, e.g. national cultures, varying expectations, and language and communication issues
- Any other relevant/potential threat that is examined in the context of Carlsberg.

Award *1–2 marks* for a generalized answer that is descriptive or lacks application. There is some understanding shown.

Award *3–4 marks* if there is some examination of the threats for Carlsberg's growth strategy in overseas markets, but the answer might lack detail or substance.

Award *5–6 marks* for a thorough examination of the potential threats (problems) in Carlsberg's pursuit of growth in overseas markets. Appropriate business management terminology has been used with reference to the case study.

Question 1.6.12 MNCs in the UAE

- (a) The term 'multinational company' refers to any business organization that operates in two or more countries. For example, Microsoft (USA), Marriott Group (USA), DHL (German) and Ericsson (Swedish) all operate within the UAE.



Award *1 mark* if the definition shows some understanding of the term multinational company.

Award *2 marks* if the definition shows a good understanding of the term 'multinational company', with the appropriate use of an example.

- (b) Globalization might affect the location of multinational companies in a number of ways, including:
- Foreign countries often provide significantly cheaper labour and other factors of production.
 - Some countries such as the UAE offer low taxes, political stability and high gross domestic product per capita to attract foreign direct investment.
 - MNCs such as Microsoft, Marriott Group, DHL and Ericsson have existing operations in foreign countries, so this boosts the confidence for other businesses yet to invest in these places.
 - Places like Dubai attract a large number of tourists, which can lead to more customers buying the firm's products.
 - MNCs can spread their risks by locating in overseas markets. Declining sales in the domestic economy could be offset by rising sales in other parts of the world.
 - By operating within a specific country, MNCs are able to avoid protectionist measures imposed on foreign firms.
 - By operating on a much larger scale across the world, MNCs are able to exploit the varying kinds of economies of scale.

Award 1–2 marks for a generalized answer that lacks detail or is presented in a list-like manner without sufficient explanation.

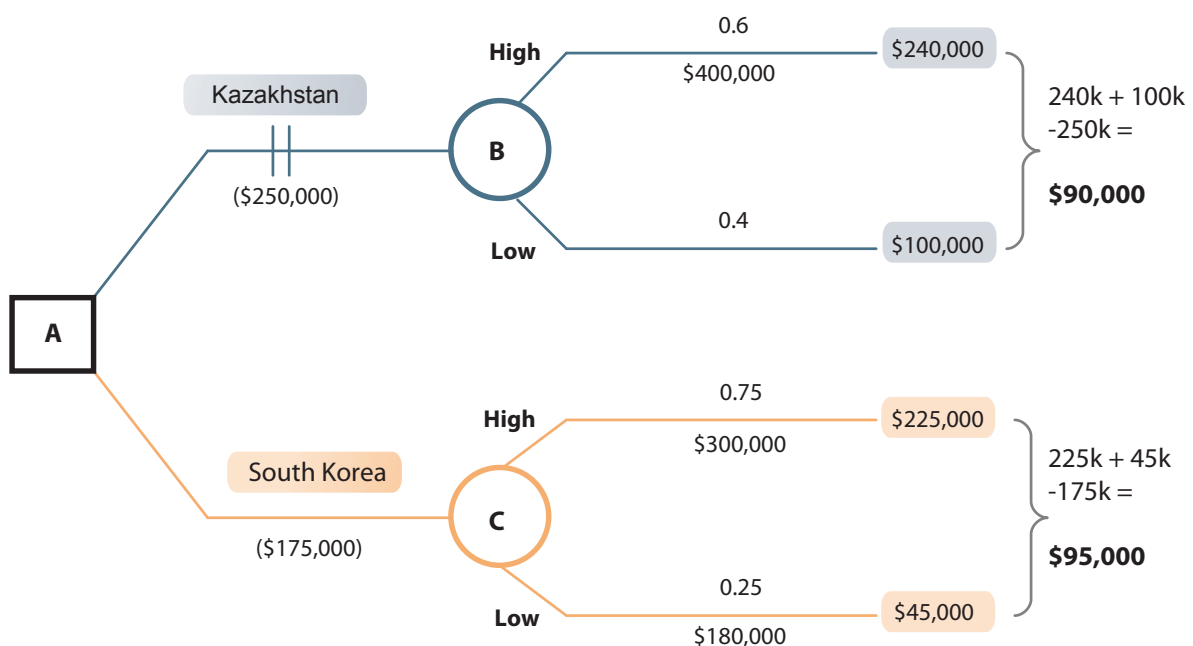
Award 3–4 marks if there is sufficient examination of some of the benefits to MNCs that operate in foreign countries. The answer might lack depth and appropriate use of business management terminology.

Award 5–6 marks if there is a good examination of the benefits to MNCs operating in foreign countries such as the UAE. There is suitable use of business management terminology and application of relevant examples.

Unit 1.7 Organizational planning tools

Question 1.7.1 Drisner Traders Ltd.

(a)



Award *1–3 marks* for using a decision tree framework which shows some attempt at calculating the expected values, but the answer is incomplete and/or inaccurate.

Award *4–5 marks* for a complete decision tree although there are one or two minor errors.

Award the maximum *6 marks* if the candidate shows a fully labelled, complete and accurate decision tree, including the working out to calculate the expected values. There is clear identification of which of the two options is the best choice, i.e. South Korea.

(b) Decision trees allow:

- Drisner Traders Ltd. to gain a broad idea of possible outcomes of the project/decision, i.e. in this case the choice of two locations
- Easier interpretation of the decision to prevent misunderstandings or confusion
- Easy and straightforward calculations to aid decision-making
- Easy accessibility for all users to make rational/scientific decisions
- Provide a quantitative tool in decision-making.

However, decision trees:

- Are based on estimated figures only and the actual outcomes may well be very different
- Can be inaccurate unless all costs, benefits and possibilities are considered
- Only consider quantitative issues in decision-making, so might be considered too simplistic a model
- Qualitative factors could be examined, e.g. familiarity with the two different locations, availability of skilled labour, recruitment and training concerns, cultural issues, legal issues, tax systems or simply management preferences
- Similarly, other quantitative methods could be considered, e.g. investment appraisal to see which location would generate the greatest financial return
- Other decision-making tools might also be useful to Drisner Traders Ltd. such as force field analysis (in order to minimize any resistance to change) and/or STEEPLE analysis.

Award *1–2 marks* for a vague and generalized answer. The answers may appear in bullet-point form with no or little development.

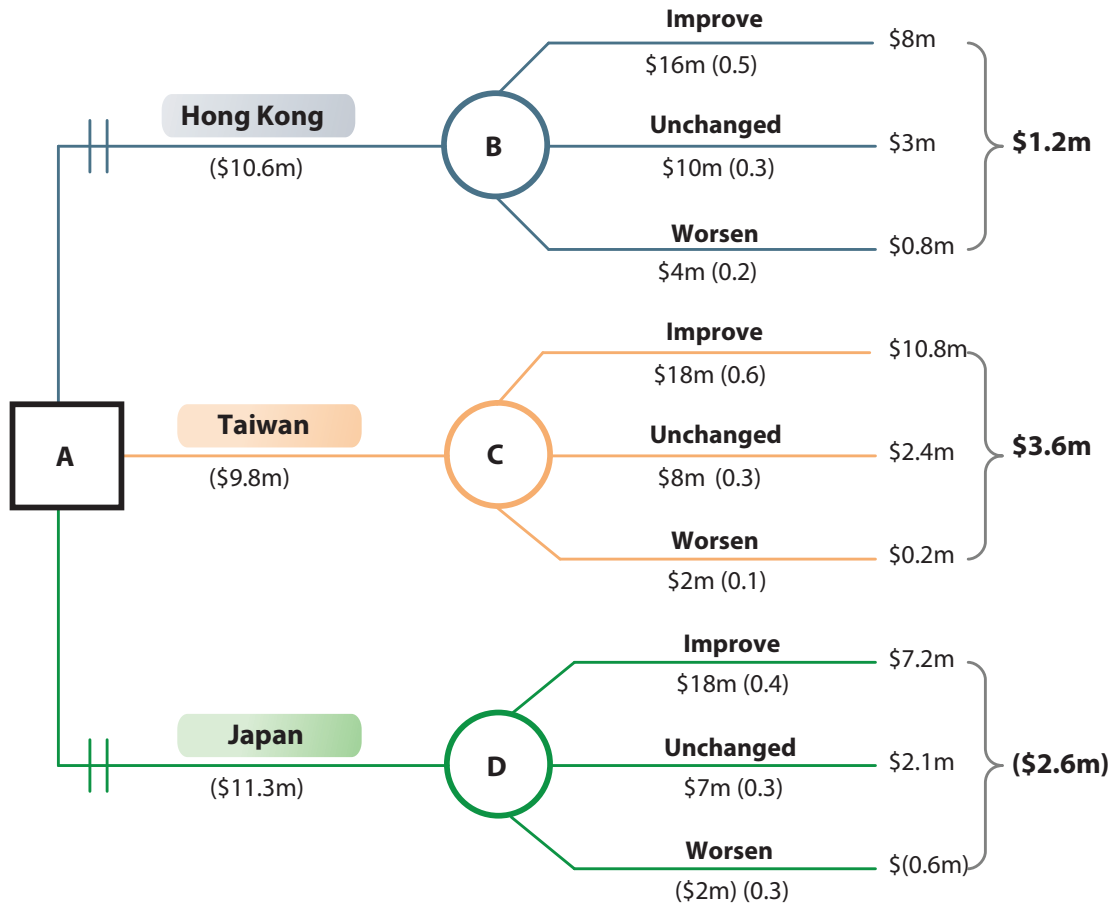
Award *3–4 marks* if only advantages or disadvantages of decision trees are examined.

Award *5–6 marks* if both the advantages and disadvantages of decision trees are considered. At the top end, there is an attempt at application using the case study.

Award *7–8 marks* if both the advantages and disadvantages of decision trees are considered, with clear application and evidence of evaluation of the usefulness of decision trees for Drisner Traders Ltd.

Question 1.7.2 Ah-Tieng Beverages

(a) Decision tree for Ah-Tieng Beverages:



Award 1–2 marks for using a decision tree framework which shows some attempt at calculating the expected values, but the answer is incomplete and/or inaccurate.

Award 3–4 marks for a complete decision tree although there are one or two minor errors.

Award the maximum 5 marks if the candidate shows a fully labelled, complete and accurate decision tree, including the working out to calculate the expected values. There is clear identification of which of the three options is the best choice, i.e. Taiwan.

(b) The benefits of using decision trees to organizations such as Ah-Tieng Beverages include:

- Requires a formal and objective analysis of the various options for, and possible outcomes of, expansion in overseas markets
- Requires full consideration of the financial costs and outcomes of the decision, thereby allowing the board of directors at Ah-Tieng Beverages to assess the level of financial risk involved with each possible outcome
- As a systematic decision-making tool, decision tree analysis allows managers at Ah-Tieng Beverages to make strategic decisions without subjectivity
- Decision trees are quite easy to construct and simplistic to interpret. Managers at Ah-Tieng Beverages are able to understand decision trees with brief but succinct interpretations.

However, the outcome and value of decision trees are only as good as the quality of the data used by Ah-Tieng Beverages to produce the decision tree. If the quantitative data is inaccurate (e.g. due to management bias or use of outdated information), then the outcome of the decision tree becomes less reliable.

Furthermore, decision trees ignore qualitative factors that can influence decision making. Non-financial factors that Ah-Tieng Beverages might consider include:

Award 1–2 marks if the answer is vague, generalized or lacks substance.

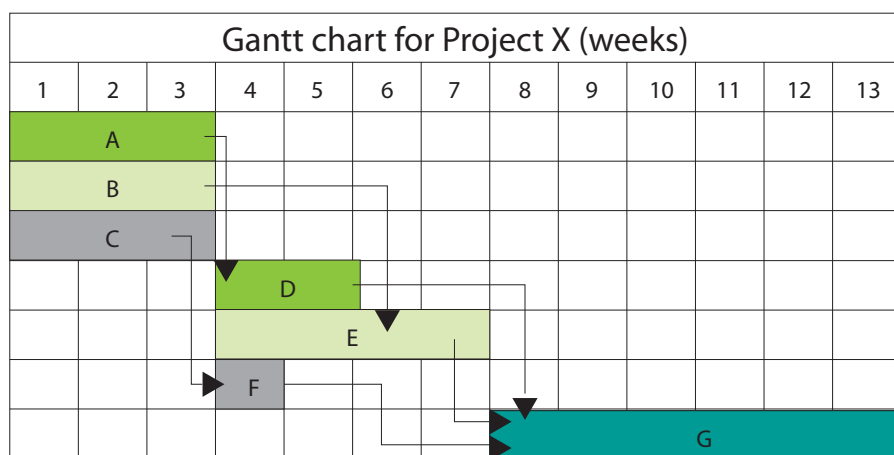
Award 3–4 marks if the answer shows some understanding of the use of decision trees, although it might lack detail or be unbalanced. Application is likely to be missing.

Award 5–6 marks if there is consideration of both the usefulness and limitations of decision trees. Appropriate terms and examples are used.

Award 7–8 marks if there is a balanced discussion of both the usefulness and limitations of decision trees for Ah-Tieng Beverages. Appropriate business management terminology and examples are used. There is evidence of critical thinking and evaluation, written in the context of the case study.

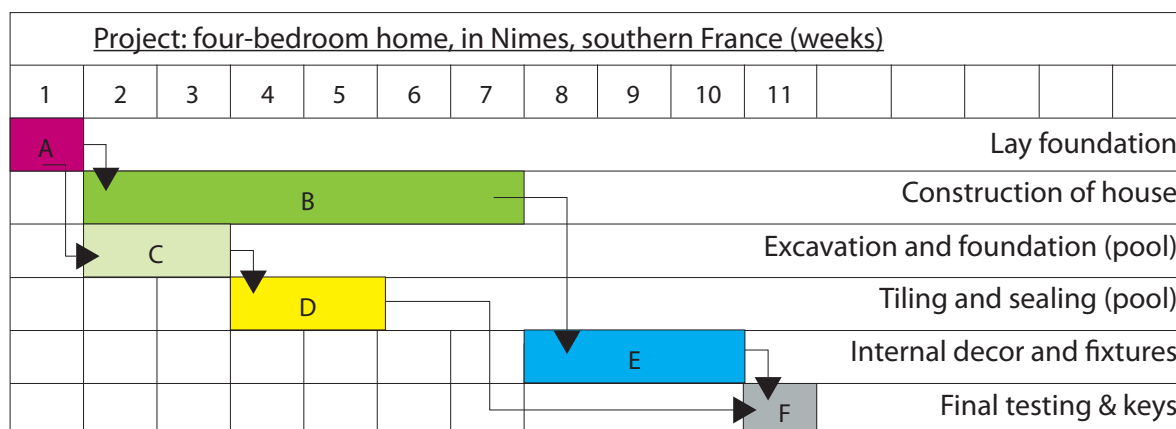
Question 1.7.3 Constructing a Gantt chart

Gantt chart for Project X:



Question 1.7.4 Kekerovic Contractors

(a) Gantt chart for Project X:



The project can be completed in 11 weeks.

Award *1–2 marks* for constructing a Gantt chart that shows some understanding, but the answer is incomplete and/or inaccurate.

Award *3–4 marks* for a complete Gantt chart although there are one or two minor errors.

Award the maximum *5 marks* if the candidate shows a fully labelled, complete and accurate Gantt chart. There is clear identification of shortest duration in order to complete the project i.e. 11 weeks.

(b) The use of a Gantt chart can be important for businesses such as Kekerovic Contractors for several reasons, such as:

- It encourages forward planning at Kekerovic Contractors, i.e. managers need to consider the different aspects of the construction project in order to complete it in minimal time.
- Since a Gantt chart provides a visual stimulus, it is easier to interpret the logistics of the development in order for the construction project to run more smoothly.
- It identifies the shortest time in which the construction project can be completed so that the buyer will have the house completed on time.
- Gantt charts can help Kekerovic Contractors to control costs more effectively by identifying when certain activities can start and how long certain tasks within a project should last.
- It helps to keep project managers accountable in case there are delays. This is important for the efficient running of the business.
- Ultimately, the tool allows managers at Kekerovic Contractors to complete the project successfully in the quickest time available by overseeing all the various activities and ensuring that each task is completed on schedule.



Award *1–2 marks* if the explanation is incomplete and/or vague. It might be presented as a list that is unexplained.

Award *3–4 marks* if the explanation is thorough and good examples are used in the context of the case study. There is no need to include more than two reasons for maximum marks.

ANSWERS

Unit 2.1 Functions and evolution of human resource management

Question 2.1.1 Trump Organization's Golf Links

- (a) Labour turnover is a measure of personnel effectiveness and refers to the percentage of a firm's workforce that leaves the organization per time period, usually one year. A relatively low labour turnover rate is generally desirable as this reduces the time and money needed to recruit new staff.



Award 1 mark for a vague understanding of labour turnover.

Award 2 marks if the concept of labour turnover is clearly understood with appropriate terminology and examples likely to be used.

- (b) Reasons why businesses, such as the Trump Organization, may need to recruit more workers include:
- Expansion – as an organization grows, so does the need to hire more workers, e.g. the 6000 jobs created by Trump's golf development in Scotland.
 - Labour turnover – to replace staff who have left the organization.
 - Restructuring – new job opportunities may exist within the organization due to a restructuring of staff roles and responsibilities.

Award 1–2 marks for a vague answer that lacks detail and/or depth. Only one reason might be provided.

Award 3–4 marks if there are good explanations of two reasons why a business, such as the Trump Organization, might need to hire new/more workers. Examples are appropriately used.

- (c) It is important for a business, such as the Trump Organization, to be aware of and understand the labour turnover within its organization for several reasons, including the following:
- A high labour turnover rate will add to the costs of recruiting, inducting and training new staff.
 - Knowledge of turnover rates will inform managers about trends and aid their workforce planning.
 - High labour turnover can affect the corporate image of an organization in a negative way, e.g. potential recruits will wonder why so many people have left the business.
 - Controlling labour turnover is essential as it ensures the business can continue to run smoothly, thereby helping to maintain its competitiveness.

Award 1–2 marks if the answer lacks detail and/or substance. The answer might be presented in a list with no or minimal explanation.

Award 3–4 marks if there is a good commentary on the importance of understanding labour turnover in business organizations. At the upper end, appropriate examples are used to substantiate the answer.

Question 2.1.2 300 million Americans

(a) An ageing population occurs when the average age of the workforce rises, perhaps due to a combination of:

- A lower birth rate (largely due to the opportunity cost of raising children)
- Longer life expectancy (linked to improved health technology)
- Flexible working practices that enable people to work beyond retirement age.



Award 1 mark for a vague understanding of ageing population.

Award 2 marks if the answer shows a good understanding of ageing population, with appropriate use of business management terminology.

(b) Constraints include:

- The sustainability of USA's high population (and population growth), e.g. quicker depletion of the world's scarce resources
- Impacts of an increased dependent population, e.g. higher taxes
- Problems of overpopulation (e.g. congestion) and their negative impact on businesses
- Inflationary pressures caused by rising levels of demand/spending in the economy.

Opportunities include:

- A larger population means a greater potential customer base for businesses operating in and exporting to the USA
- The demographic changes create opportunities for workforce planning, e.g. a greater pool of workers to choose from
- As the only industrialized country with significant population growth, the USA could attract a huge amount of foreign direct investment
- Much of the population growth is attributed to migrants; thus there might be business opportunities to cater for these various ethnic groups
- Greater opportunities for flexible working practices with a growing and ageing workforce.

Award 1–2 marks for a vague answer that lacks detail and/or depth. Award up to 2 marks if only opportunities or constraints are outlined. Award 1 mark for a list-like answer that lacks clarity.

Award 3–4 marks if there is a good outline of both constraints and opportunities of the demographic changes mentioned in the case study. Relevant examples are used with appropriate use of business management terminology.

Question 2.1.3 Fonthill Primary School job advertisement

(a) It is important to produce effective job descriptions because well-defined job descriptions help attract the right potential applicants, e.g. an educational assistant who is patient, shows initiative and works collaboratively. By contrast, poorly defined job descriptions can lead to inappropriate candidates applying for jobs and/or lead to conflict about what the job actually entails.

In addition, an effectively produced job description can prevent (too many) people calling or emailing for more information, thereby allowing current staff not to be distracted from their work. Effective job descriptions will therefore provide sufficient detail to inform the targeted group of recruits, e.g. a qualified educational assistant to work in the Learning Support Department.

Job descriptions are often used in appraisal meetings with the Head of Department. Well-defined job descriptions therefore provide useful documentation to assess the extent to which a worker has fulfilled the duties they were hired for.

Award 1–2 marks if there is some understanding of the reasons why job descriptions are of importance to a business, although these may not be appropriately developed or explained.

Award 3–4 marks for a thorough explanation of the reasons why effective (well-defined) job descriptions are of importance to businesses such as Fonthill Primary School. There is appropriate use of examples and business management terminology.

- (b) The given job advertisement provides a good amount of detail about the job, e.g. job title and working hours. There is also a brief outline of the person specification, e.g. patience, initiative and experience. A broad overview of what the job entails is provided, with details of the closing deadline. There is also mention of a contact name (the school principal). This should provide sufficient information for potential candidates.

However, the advertisement does not really stand out and there is a lot of text all squeezed together (making it more difficult to read). It would also be useful to include the school website address, an email or telephone contact for the school (there is no mention of how to get an application form). Finally, to prevent inappropriate candidates from applying, it may also be helpful to have any professional qualifications that are needed for the job.

Award 1–2 marks if the answer lacks detail/is vague and may be presented as a list, with no/little relevance to the issue in question.

Award 3–4 marks if the answer is sound but lacks detail or substance in certain areas. There is adequate use of business management terminology, although the answer may be one-sided, i.e. lacks balance.

Award 5–6 marks if there is a balanced examination of the job advertisement. The answer is detailed and probing, with good use of business management terminology.

Question 2.1.4 Northern Ireland's hotel industry

- (a) The existence of low wages and few opportunities for (career) promotion may create problems for hoteliers because:
- Low wages and few opportunities can prevent a sufficient pool of workers being attracted to the industry
 - They can reduce morale and motivation in the workplace, thus creating problems for the hotels, e.g. poor customer service
 - Existing workers might be attracted by higher wages being offered in other industries
 - Existing workers may choose to leave due to the lack of promotional opportunities.

Award 1–2 marks if some potential problems are identified although the answer lacks detail/depth. The answer might be no more than a list of reasons without any explanation.

Award 3–4 marks if relevant potential problems are adequately explained (with reference to both low wages and few opportunities for promotion). There is good use of examples and application of these problems to the hotel industry.

- (b) The view that training and development are burdens so should be minimized can be substantiated to some extent because:
- Training and continuous professional development are expensive
 - Planning and delivering training can also be very time consuming

- There is no guarantee that staff who are trained and professionally developed will remain with the organization
- It might be difficult to justify the costs of training for low-skilled hotel staff
- Not all training programmes, or aspects of the training, may be suitable or relevant.

However, there are counter-arguments because:

- Without adequate training, staff may be unable to perform their jobs
- Continuous professional development is required in order for workers to be equipped with new skills to cope with changes in the external business environment and to maintain their level of motivation in the workplace
- A firm that does not train and develop its staff will tend to experience relatively higher rates of labour turnover
- A more productive workforce (through training and development) can bring competitive advantages to a business
- It can also be harder to attract employees to an industry (such as the hotel trade) without adequate training.

Award 1–2 marks for a generalized answer that lacks detail or is presented in a list-like manner.

Award 3–4 marks if there is sufficient depth, although the answer lacks a balanced argument. At the lower end, there is little if any application to the hotel industry.

Award 5–6 marks if there is a good discussion that considers both the costs and benefits of training and development, with appropriate examples and application made to the hotel industry. For full marks, the candidate must address the extent to which training and development should be minimized.

Question 2.1.5 MySpace

- (a) Redundancy exists when a business, such as MySpace, retrenches workers because they are no longer needed as the firm can no longer afford to employ them. This is largely due to the growing popularity of Facebook, its main rival.

By contrast, dismissal occurs when a worker has been removed (sacked or fired) from his or her position, usually because of misconduct and/or underperformance in the job.

Award 1–2 marks if the terms are defined although they lack detail/clarity. Examples might also be missing. There may be no attempt to distinguish between the two terms.

Award 3–4 marks if both terms are clearly defined and a distinction is made. There is good use of examples and proficient use of business management terminology.

- (b) Workforce planning will require MySpace to prepare its human resource needs by looking at the current and future staffing requirements. Given the situation facing MySpace, retrenchment of half its workforce in the USA would allow the online firm to better meet its human resource planning targets, especially due to the huge and growing popularity of Facebook. In addition, personnel needs will probably have to change following MySpace's diversification to 'allow unsigned musicians to post and sell music on their website'. This could involve MySpace having to hire, train and develop appropriate staff to facilitate the new service.

Since MySpace faced reduced demand for its services, there is clearly a need to cut costs. Retrenching staff means that the firm lets go of staff who are surplus to needs, especially those at the lower end of the hierarchy. They are usually the easiest (and cheapest) target group to make redundant. If the situation improves for MySpace, following its diversification strategy, it would also be relatively easier to recruit low-paid staff to meet its future workforce needs.

In addition, rival social network sites, such as Facebook and Twitter, had reduced MySpace's market share. The hiring of excess staff would simply add to its costs without any corresponding increase in revenues. Hence, with declining demand for its services, it would not be rational for MySpace to retain its current workforce.

Award 1–2 marks for a generalized answer that is descriptive, or lacks substance/relevance (to MySpace). The answer might appear in a list-like format.

Award 3–4 marks if there is an examination of the reasons for retrenchment, but the answer might lack detail and/or application to the case study.

Award 5–6 marks if there is a thorough analysis of the reasons why retrenchment would be suitable for MySpace, with reference to its workforce planning targets. Appropriate business management terminology is used in the context of the case study.

Question 2.1.6 McDonald's

- (a) Flexible work structure refers to the use of a more flexible workforce, i.e. staff with the ability to multitask (carry out a range of different tasks or jobs) and to adapt to changes in the business. For example, Charles Handy's theory of the shamrock organization suggests that businesses such as McDonald's will increasingly use fewer core staff in order to improve their flexibility by employing more part-time workers.

Award 1 mark for a vague understanding of flexible work structures.

Award 2 marks if flexible work structures is clearly understood with appropriate development and examples used.

- (b) The costs and benefits of flexible work structures to employers, such as McDonald's, and their employees include those outlined below:
- Higher staff turnover as there tends to be less employee loyalty among the non-core staff
 - Lower remuneration packages for part-timers (a cost to the employee but a potential benefit to employers)
 - Relatively easier to employ part-time staff
 - Job creation opportunities, mainly for university students and women, who can choose their own hours of work to suit their lifestyles, i.e. university studies and childcare
 - Flexibility has allowed McDonald's to open for extended hours, and even 24/7 in some of their restaurants
 - There is often less job security and less trade union representation for part-time workers
 - With more flexible work structures, management control is made more difficult as the number of peripheral staff increases whilst the core staff are reduced.

Award 1–2 marks for a generalized answer that is descriptive or lacks substance. There is some understanding shown.

Award 3–4 marks if there is an examination of both the costs and benefits of flexible work structures, although it lacks depth/clarity. Award up to 3 marks for a one-sided answer.

Award 5–6 marks if there is a thorough examination of both the costs and benefits of flexible work structures to organizations and their employees. Appropriate business management terminology is used and there is reference made to the case study.

- (c) The shortages of labour (largely due to ageing populations) has meant that firms such as McDonald's offer more flexible and attractive employment options to their workers. The consequences of such changes in working patterns include:
- attracting women and part-time employees by offering flexible working hours
 - cutting the number of core staff and hiring more part-time and peripheral workers (Handy's shamrock organization)
 - organizational restructuring resulting from a reduced core staff and more part-time staff (and in some cases teleworkers or homeworkers)
 - offering training opportunities to allow some employees to work from remote locations, e.g. their own homes
 - appointing and/or retaining more mature workers who have the necessary skills
 - offering training opportunities to develop the skills of existing employees, and to boost their morale in the workplace
 - offering training opportunities to internally promote certain members of staff (important for motivation and staff retention)
 - outsourcing non-essential activities.

Given the need for more flexible working structures, businesses need to adjust their staffing needs and alter the way in which they recruit and train their workers. Due to labour shortages in many economically developed countries, staff retention becomes more crucial, so the recruitment, training and continuous professional development of staff need to be managed effectively.

Award 1–3 marks if the answer lacks detail and is limited in scope. It is unlikely that all three components (workforce planning, recruitment and training) have been covered.

Award 4–6 marks if answer shows some understanding of the consequences of flexible working patterns, although the answer might not cover all three areas (workforce planning, recruitment and training).

Award 7–9 marks if the discussion covers the consequences for workforce planning, recruitment and training, written in the context of flexible working patterns. There is good application of the stimulus material. At the top end, there is clear evidence of critical thinking and evaluation.

Question 2.1.7 British school outsources teaching to India

- (a) Outsourcing is the practice of subcontracting non-core activities to external firms or agencies as a method of reducing costs and improving efficiency. In this case, Ashmount Primary School is outsourcing aspects of its teaching to BrightSpark Education.

Award 1 mark if the answer shows some understanding of outsourcing, although the answer might lack clarity.

Award 2 marks if outsourcing is clearly defined, with the use of an example related to the case study likely to be used.

- (b) Arguments in favour of Ashmount Primary School outsourcing some of its teaching to tutors in India include:
- It is far cheaper to use tutors from BrightSpark Education in India, costing £12 an hour for each student compared to hiring private tutors at a cost of £40 an hour (over three times more expensive).
 - Online education also helps to cut costs for Ashmount Primary School as there is no need to pay for/rent a physical building and the associated running costs (e.g. lighting and heating).
 - The corresponding increase in the quality of teaching (of mathematics) provides further justification.

- The Maths graduates are fluent in English and have the correct expertise/experience to tutor the students of Ashmount Primary School.

However, the disadvantages of outsourcing for the school include:

- There is controversy about whether outsourcing the school's core activity (teaching) is in the best interest of the organization and its students.
- There will naturally be concerns about quality assurance issues at BrightSpark Education, given the cultural gap between tutors (and students) in the UK and India.
- Outsourced tutors in India need to be monitored to ensure that deadlines and quality standards are met. This will increase administrative costs to Ashmount Primary School.
- The benefits of outsourcing are subject to changes in the external environment, e.g. rising labour costs in India will reduce the financial benefits of outsourcing to BrightSpark Education.
- Lack of local knowledge – can the graduate tutors in India really address 'local' educational issues of students in North London?

Award 1–2 marks for a generalised answer that is descriptive or lacks substance. The answer might appear in a list-like format.

Award 3–4 marks if the answer lacks coherence or is unbalanced. Relevant examples might be missing.

Award 5–6 marks if there is good discussion of both the arguments for and against Ashmount Primary School using a subcontractor. Appropriate terminology has been used with some reference to the case study. No evaluation has been attempted.

Award 7–8 marks if there is a thorough discussion of the arguments for and against outsourcing, written in the context of Ashmount Primary School. There is a justified conclusion about the decision to outsource some of the teaching to tutors in India.

Unit 2.2 Organizational structure

Question 2.2.1 Restructuring at Southmead College

- (a) Middle managers are the people in charge of running individual departments of an organization. In the case of Southmead College, this is likely to refer to people in positions of responsibility such as Heads of Department or Heads of Year (Grade). They set departmental objectives (which are in line with the College's overall aims) and are responsible for implementing appropriate strategies to achieve these goals. Middle managers are accountable to the senior management team of the College.

Award 1 mark for a vague answer that displays some understanding of the term 'middle managers'.

Award 2 marks for an answer that shows a clear understanding of the term 'middle managers', with an appropriate example used.

- (b) Students are likely to use a range of human resource management theories in addressing this question, e.g. motivation theory. Students that take a different approach, e.g. investment appraisal, should also be credited appropriately.

The decision to restructure the College could be justified for various reasons, such as:

- Huge cost savings which can be used to improve the teaching and learning facilities at the College.
- A flatter organizational structure should also mean that communication is improved.
- The freed up finance used to fund staff training and development would benefit both the College and staff in the future.

- Redundancies are minimal, and indeed there may be some voluntary redundancies (due to the restructuring of jobs and the pay cuts for some middle managers).

However, the decision could be argued to have negative implications for the organization:

- Demoted middle managers (back to the classroom and earning up to \$11 200 less a year) may decide to leave the organization to pursue their careers elsewhere. This creates problems for recruitment. In addition, the loss of highly skilled and experienced middle managers may cause major disruptions to labour productivity.
- The lack of career and promotional opportunities may reduce the attractiveness of the College as an employer.
- Resistance to change and industrial action from the teaching staff would need to be managed very carefully; including any negative publicity in the media.

The extent to which the decision was 'good' will depend on various factors, such as the College's mission statement and organizational objectives. The power (influence) and interest of various stakeholders (e.g. teaching staff and parents) would also have a major impact on the outcome of the decision to restructure the College staff.

Award 1–2 marks for a generalized answer that lacks detail or substance.

Award 3–5 marks if relevant points are examined but the answer might not be written in the context of Southmead College or if an unbalanced (one-sided) argument is provided. There is no attempt at evaluation.

Award 6–8 marks if there is a balanced discussion of the decision made by the senior management team at Southmead College, with appropriate use of business management terminology. There is good application and evidence of critical thinking.

Question 2.2.2 Ferrari

- (a) Decentralization occurs when decision-making authority and responsibility are shared out with others in the organization. At Ferrari, the highly skilled workers have some decision-making power, not only the senior management team.



Award 1 mark for a vague answer that displays some understanding of the term decentralization.

Award 2 marks for an answer that shows a clear understanding of the term decentralization, with appropriate use of business management terminology and/or relevant examples.

- (b) 'Skills training' refers to the professional training and development of staff. This is deemed important to firms such as Ferrari for a number of reasons, including:
- To build on its outstanding build quality and prestigious cars
 - Its culture of a high degree of decision-making power means there is a need for staff to be highly trained in all aspects of their work
 - To uphold the high level of motivation and employee loyalty at Ferrari
 - To remain competitive against its rivals such as Lamborghini, Bugatti and Porsche.

Award 1–2 marks if there is a generalized answer, which might lack depth and/or substance or if only one application is shown.

Award 3–4 marks for a detailed explanation of why skills training is important to firms such as Ferrari. For maximum marks, there should be appropriate reference made to the case study with good use of business management terminology.

- (c) Centralization occurs when all or most key decisions in an organization are made by senior management, i.e. there is a lack of discretion and autonomy among the workforce. By contrast, decentralization happens when there is delegation of decision-making power to those lower down in the organizational structure of the business.

Factors that influence the degree of decentralization at Ferrari might include:

- The quality of experience and skills held by the workforce – in Ferrari's case this means that decentralized decision-making can be justified.
- Nature (size and scope) of the decision, e.g. major decisions that carry huge risks and costs will be centralized, i.e. made by the senior management team.
- The organizational culture – the prevailing culture at Ferrari will mean an expectation of decentralized decision-making.
- The size of the firm – as Ferrari is a relatively small car manufacturer with a very limited product range, there is less of a need to centralize decision-making and management control.
- The nature (skills, experiences, outlook and attitudes) of management – In Ferrari's case, there seems to be mutual trust between management and employees so some degree of delegation is likely to take place.
- The geographical concentration of Ferrari (in Maranello, Italy) also means less of a need for centralized decision-making.
- The need for product innovation in the motor industry also means that decentralization is suitable for Ferrari.

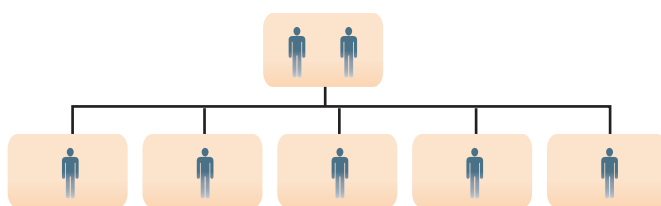
Award 1–2 marks if the answer is brief, generalized and tends to be descriptive or is presented as an unexplained list.

Award 3–4 marks if the explanation is good, but the answer may lack detail and/or application to Ferrari.

Award 5–6 marks if there is thorough examination of the factors that influence the degree of decentralization at Ferrari. There is clear application of the case study and effective use of business management terminology.

Question 2.2.3 Organization charts

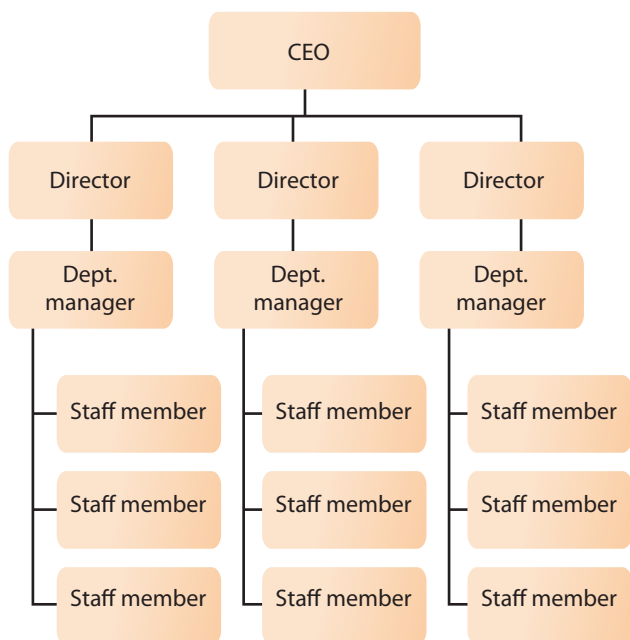
- (a) (i)



Award 1–2 marks if there is some understanding of the demands of the question shown, although there are one or two errors/omissions.

Award 3 marks if the organization chart is accurate, showing the two partners jointly responsible for their workforce of five employees.

(ii)



Award 1–2 marks if there is some understanding of the demands of the question shown. The organization chart has a few errors and/or omissions.

Award 3–4 marks if there is a clear understanding displayed in the construction of the organization chart. For 3 marks, allow one error or omission in the organization chart.

- (b) The span of control is equally shared by the two partners and there is tight control due to the flat organizational structure. By contrast, there is greater delegation in the private company with three directors and three department managers, due to its larger workforce. Therefore, there is a longer chain of command in the private company than in the partnership.
- (c) A wide span of control occurs when a manager is directly responsible for many people. Consequences to a business that chooses to adopt a wider span of control include:
- Fewer layers in the hierarchy of the organization are needed, i.e. it is cheaper to operate a wider span of control because there are fewer levels of management.
 - Delegation becomes a relatively important part of managing the organization.
 - Communication should be improved overall (in terms of speed and accuracy) because there are fewer layers in the hierarchy.
 - There is a smaller psychological distance between those at the top and those at the bottom of the organization.
 - There are fewer opportunities for subordinates to take on extra responsibilities as promotion (through the hierarchical ranks) is limited.

Award 1–2 marks if only one consequence is explained or if the answer is vague and lacks substance.

Award 3–4 marks if two consequences of adopting a wider span of control are clearly explained, with relevant use of examples. There is good use of appropriate business management terminology.

Question 2.2.4 Departments or faculties?

- (a) A change away from departments to faculties would mean that the separate subject leaders would be managed by the Head of Faculty (HOF). This essentially adds an extra layer to the hierarchical structure of the school. Heads of Department would become Heads of Subject all with a new line manager (who would be accountable to the senior management team). The Heads of Subject would retain the same span of control whereas the HOF would have a much wider span of control that encompasses all members of the newly formed faculty. Finally, the chain of command would be lengthened as there is a taller structure in the organization.

Award 1 mark for a generalized answer that lacks substance and/or application.

Award 2–3 marks if the answer correctly explains the taller hierarchical structure resulting from the new faculty structure. For full marks, there is reference to how the span of control and chain of command are affected by the restructuring of the organization.

- (b) Arguments for organization by faculties include:
- To create and foster more collaborative teams within the humanities subjects, e.g. sharing of good practice, cross-curricular links and common teaching approaches
 - Senior management no longer need to spend so much time with individual HODs (this becomes the responsibility of the HOF), thereby freeing their time to focus on strategic leadership of the school
 - Creating a promotional opportunity (and drive/motivation) for one of the HODs to become the new HOF.

Arguments against using faculties in schools (i.e. in favour of departmentalization by subject area) include:

- More meetings since HODs would need to meet with the HOF on a regular basis to discuss issues that affect the whole faculty. HODs would also need to find time to feed back this information to their own teams (hence there is greater burden on the HODs).
- HODs are no longer in direct communication with senior management (as they are accountable to the HOF instead), so this might make some HODs feel somewhat out of touch.
- Having an extra layer in the hierarchy means greater costs to the organization and potentially slower communications.
- There is greater specialization within departments than with faculty structures.

Whether using departments or faculties is better for a school will depend on a whole host of factors, such as its budgetary constraints, the number of staff involved, the personalities and aptitudes of the staff, the subjects being offered at the school, and so forth. For a good discussion, some of these factors should be critically considered.

Award 1–2 marks if the answer is rather generalized and vague. Answers might appear in a list-like format.

Award 3–5 marks if there is an examination of the relative benefits of using the different structures, although the answer may be unbalanced at the bottom end of the band. Appropriate business management terminology is used and there is some application shown.

Award 6–7 marks if there is a balanced answer that considers both costs and benefits of using faculties rather than departments (or subject areas). Appropriate business management terminology is used and there is sound application. There is evidence of evaluation/critical thinking.

Question 2.2.5 Organizations and spans of control

- (a) The plant managers are accountable to their respective vice presidents (Marketing, Finance or Production) of the organization.

They are responsible for the people in their own departments (for both consumer and industrial products).

Award *1 mark* for correctly identifying the accountability and *1 mark* for correctly identifying the responsibility of the plant managers, up to the maximum of *2 marks*.

- (b) The 'span of control' refers to the number of subordinates that are controlled by a manager, i.e. the number of people who are directly accountable to a manager. The span of control is wide for a manager responsible for a large number of staff, whereas it is narrow for managers in charge of only a few people. 'Levels of hierarchy' refers to organizational structures based on a ranking system, usually with a Chief Executive Officer (or equivalent such as a President) at the top of the structure and unskilled staff producing consumer products and industrial products at the bottom. The levels show the relative degree of authority and responsibility of each rank in the overall organization.

Award *1–2 marks* if the terms are described, although there may be some omissions or lack of clarity. Appropriate examples/application might be missing.

Award *3–4 marks* if both 'span of control' and 'levels of hierarchy' are correctly described. There is appropriate use of business management terminology with relevant use of examples.

- (c) An organizational chart might be used by a firm for its induction programme in the following ways:
- To show and explain to new staff where they fit into the overall organization, i.e. their position and rank in the business
 - To show their lines and scope of organizational responsibility (if any)
 - To show who they are accountable to, i.e. their line manager(s).

This overview can help new staff to settle quickly into the business as they become more familiar with the personnel structure of the organization. It can also act as a point of reference for when the new recruit has particular enquiries, such as who to approach for certain questions.

Award *1–2 marks* if some understanding of the use of organizational charts is shown, although the answer may lack detail and/or may not be directly related to a firm's induction programme.

Award *3–4 marks* if there is a detailed understanding of the purpose of using organizational charts for inducting new staff. At the top end, appropriate business management terminology is applied effectively, with the use of relevant examples.

Question 2.2.6 The importance of body language

- (a) Communication is the transfer of information from one party to another, be it verbal, non-verbal, written or by electronic means. The objectives of communication include to instruct, clarify, interpret, notify, warn, receive feedback, review and, above all, to inform.

Award *1 mark* for a vague answer that displays some understanding of the term communication.

Award *2 marks* for an answer that shows a clear understanding of the term communication, with appropriate use of business management terminology and/or relevant examples.

(b) Benefits of good communication for a business include:

- Enhancing the level of customer services (thereby helping to meet their needs and wants) and customer loyalty.
- Making business operations more cost effective, e.g. greater labour productivity and better relationships with suppliers and investors.
- Having positive motivational effects on the workforce (since employees have been consulted or communicated with).
- Making better (more informed) decisions.

Award 1–2 marks if only one benefit of good communication is clearly outlined or if the answer lacks substance/depth.

Award 3–4 marks if two benefits of good communication are clearly outlined in the context of a business, with relevant use of examples.

Question 2.2.7 Email usage at work

(a) Electronic mail (email) refers to the process of using computers and telephone lines as a mailing system for both internal (intranet) and external (internet) communication purposes.

Award 1 mark for a vague answer that displays some understanding of the term electronic mail.

Award 2 marks for an answer that shows a clear understanding of the term electronic mail, with appropriate use of business management terminology and/or relevant examples.

(b) Email could encourage informal communication in the workplace in several ways, such as:

- Personal messages being sent from the workplace to family and friends
- If emails are not monitored (by the employer) due to privacy laws, this can encourage informal communication via emails, i.e. emails not related to work
- There is no financial cost to the sender (employee) so this might further encourage informal communication, both internally and externally.

Note: Informal communication is not the same as informal messages.

Award 1 mark if the answer shows a vague understanding of how electronic mail might encourage informal communication in the workplace.

Award 2 marks if the answer shows a clear understanding of how electronic mail might encourage informal communication in the workplace, with appropriate use of examples.

(c) Students should clarify what they see as an ‘improvement’ in communication in the workplace. Measures used to judge the efficiency of communication could include:

- Speed
- Accuracy
- Cost
- Comprehension (of the message being sent).

Email does not work well as a form of communication when:

- Speed and cost are an important consideration (compared to fax or postage mail)
- The same message needs to be relayed to many recipients in different geographical locations

- Reference to data and information is needed (using attached files to the email), perhaps at a later date, e.g. sales figures
- There is sufficient training in using the email system at work
- Used in a professional manner, with employees observing protocol and email etiquette.

Email works well as a form of communication when:

- There are technical hitches, e.g. power failure, viruses or computer hacking
- There is monitoring of emails by the employer (conflict and controversy over privacy and management time issues)
- The use of email is not embedded in the organizational culture, i.e. people do not regularly and systematically read/respond to emails
- Codes of practice (email etiquette) are not established to guide employees in the use of email at work
- External communication requires the use of more traditional/formal methods of communication, e.g. written contracts (which require signatures on letter-headed paper)
- It is abused by staff, e.g. if significantly used for informal communication not connected to work matters
- Junk mail and spam mail clog Inboxes (thereby reducing worker efficiency).

Whether email improves efficiency in the workplace really depends on how and why it is used, based on the considerations of some of the above points.

Award 1–2 *marks* for a generalized answer that lacks detail or for an answer that is presented in a list-like manner with no/minimal explanation.

Award 3–4 *marks* if there is sufficient explanation how email might improve the efficiency of communication in the workplace. The answer might be one-sided (unbalanced). Award up to 3 *marks* if only the advantages or disadvantages (of using email as a form of communication) are considered.

Award 5–6 *marks* if there is a sound and balanced discussion that considers whether electronic mail improves the efficiency of communication in the workplace. There is good use of business management terminology and evidence of appropriate evaluation.

Question 2.2.8 Edexcel examination paper blunder

(a) Barriers to effective communication include:

- Jargon/specialist language
- Technical faults, e.g. printing error
- Misunderstandings
- Poor communications management.

Application is needed for maximum marks, such as:

- Poor management of information and communication systems, e.g. failing to send the right documents to clients
- Tall hierarchical structures with long chains of command (Edexcel is one of the UK's main examination boards) leading to distorted messages being communicated
- Inadequate staff training leading to gaps in the work being carried out (inefficiently). This is clearly linked to poor planning and management.

Award 1–2 *marks* if only one barrier is clearly outlined or if the answer is vague and lacks substance.

Award 3–4 *marks* if two barriers to effective communication are clearly explained, with appropriate use of examples and/or application to the case study.

- (b) Effective communication (unlike Edexcel's examination blunders) is vital to an organization such as Edexcel (and any other choice of organization) because it helps to:
- Minimize errors and mistakes (such as the one in the case study), thereby improving productivity and efficiency in the organization
 - Guide workers in the right direction in order to achieve organizational objectives
 - Keep schools (the customers) up to date with curriculum changes and developments
 - Promote organizational efficiency in order for Edexcel to compete with its rivals
 - Preserve or enhance Edexcel's reputation and corporate image
 - Improve working relationships (or prevent potential conflicts) because misunderstandings are likely to be minimised
 - Prevent schools and parents losing confidence in Edexcel, thereby preventing them from switching to rival examination boards such as AQA or the IBO
 - Gain feedback in order for Edexcel to continually improve
 - Improve the management of communications, especially since Edexcel deals with clients from around the world.

Award 1–2 marks for a generalized answer that lacks details of the importance of effective communication to *Edexcel* and any other organization.

Award 3–4 marks for a good examination of several factors, with some understanding of the importance of effective communication to *Edexcel* and any other organization. The answer might lack substance or the use of relevant examples.

Award 5–6 marks for a thorough examination of several factors, with detailed understanding of the importance of effective communication to *Edexcel* and any other organization. There is good use of business management terminology and effective use of relevant examples.

Unit 2.3 Leadership and management

Question 2.3.1 Vinayak Textiles

- (a) Laissez-faire is the leadership style based on having minimal direct input in the work of employees. Managers and leaders allow their subordinates to make their own decisions and to complete tasks in their own way whilst retaining overall responsibility for the work.

Award 1 mark for a vague answer that shows some understanding of the term 'laissez-faire'.

Award 2 marks for an answer that shows a clear understanding of the term 'laissez-faire', with appropriate use of business management terminology and/or an example used.

- (b) The functions of management include:
- *Planning* – Managers are responsible for setting the course of action to achieve organizational objectives, e.g. Vinayak Textiles aims 'to gain higher sales and to increase market share'.
 - *Organizing* – Managers organize resources in order to achieve corporate objectives, e.g. by restructuring the business as hinted by Ritu Vinayak, the incoming Managing Director.
 - *Controlling* – Managers are responsible for the performance of their teams. In the case of Vinayak Textiles, there seems to be a need to take corrective measures as profits have been falling.
 - *Commanding* – Managers pass on instructions and orders to their subordinates in order to achieve corporate objectives. Workers have become complacent at Vinayak Textiles so commanding as a function of management becomes vital for the firm to restore its competitiveness.

- *Coordinating* – Managers have the responsibility of ensuring that all sections (or departments) strive to achieve the main goals of the business, e.g. by delegating or allocating appropriate tasks to the 30 workers in Hyderabad.
- *Managers as general practitioners* – Handy suggested that managers must oversee the level of staff turnover, productivity and customer satisfaction. The ‘health’ problems in the business, such as complacent staff (and perhaps demoralized staff following the proposed changes to the remuneration system) must be dealt with by the management.
- *Communicating with and motivating employees* – Drucker argued that even the most laissez faire manager has to communicate with the workforce in order for the organization to be successful.
- *Measuring performance* – Drucker also suggested that every employee’s job performance can be measured by the extent to which he or she meets the objectives that have been set.

Note: it is not expected that students use all three theories (Fayol, Drucker and Handy).

Award 1–2 marks if the answer lacks detail and/or coherence. The answer might be listed in bullet point form without much, if any, development.

Award 3–4 marks if there is some good application of management functions and some appropriate business management terminology has been used correctly.

Award 5–6 marks if there is thorough application of a range of management functions to Vinayak Textiles. Appropriate business management terminology has been used effectively throughout.

Question 2.3.2 School leadership and management

(a) Differences in management and leadership in schools might include:

- The school Principal is the leader of the organization because he or she determines (with the senior management team) the vision and direction of the school, e.g. deciding whether to adopt IB courses (PYP, MYP and DP) to the benefit of the students. By contrast, managers such as the Heads of Year and Heads of Department, deal with daily, tactical and routine decisions.
- Leaders are accountable for a much broader range of responsibilities. The senior leadership team (SLT) are collectively responsible for all the staff (teaching and non-teaching) whereas managers are responsible for the people within their teams.
- As a leader, the Principal strives to inspire and motivate staff; he or she encourages and entrusts creative and talented staff to help the school move forward.
- Managers follow predetermined rules and policies set by the school and SLT. Their focus tends to be on accomplishing tasks and managing people within their teams.
- Middle managers ‘do things right’, i.e. teaching and administration. By contrast, the SLT and Principal ‘do the right thing’, e.g. devising school policies and contingency plans to manage crises.
- The Principal and SLT focus on inspiring staff to achieve organizational aims and objectives via delegation and empowerment. By contrast, middle managers focus on control (managing and directing) subordinates within their teams. They focus on completion of tasks within predetermined deadlines.

Note: Given the question, allow examples that are not related to schools/education.

Award 1–2 marks if the commentary is vague and/or incoherent. Answers might appear in a list-like form with little, if any, explanation.

Award 3–4 marks if the commentary is accurate, with the roles of managers and leaders clearly distinguished. There is good use of examples and reference to the case material.



- (b) A range of leadership/management and motivation theories could be used. For example:
- Autocratic management/leadership (favoured by the likes of F.W. Taylor and Henri Fayol): Customers – the parents (and students) might become dissatisfied with the quality of teaching and learning, and perhaps look at alternative schools for their children.
 - Motivate staff who want clear leadership and direction.
 - Help to keep staff 'on their toes', i.e. it reduces the likelihood of slackness and complacency.
 - Be effective/appropriate in 'failing schools' where examination results and/or discipline are a cause for concern.
 - Demotivate highly creative and skilled employees, such as highly experienced school teachers, who don't want to be told 'how' to do their jobs.
 - Negatively impact on staff retention levels in the long term.
 - Laissez-faire management/leadership:
 - Can be appropriate in schools where the Principal and senior leadership team (SLT) have upmost faith in the professionalism and ability of their staff to get on with their jobs. The SLT will set the organizational objectives and school development plan, but then it is up to the employees to decide how best to achieve the objectives using the resources available to them.
 - Can lead to high levels of motivation as staff may feel trusted and highly valued by their employer. Staff also feel that they have control over their work and can contribute to the success of the school. This helps them to achieve esteem and ego needs, to some extent (Maslow's hierarchy of needs).
 - Can make coordination and decision-making very time-consuming because there is a lack of overall supervision or control. Furthermore, laissez-faire management/leadership relies heavily on people's goodwill and teamwork to achieve the organization's goals. Thus, it can lead to slack behaviour and/or complacency in the workplace unless there are systems set in place to make staff fully accountable for their work, e.g. lesson observations and performance management reviews.

Award 1–3 marks if the answer lacks coherence and does not make effective use of management/leadership theory and motivation theory.

Award 4–6 marks if there is an examination of how different management and leadership styles can influence the level of staff motivation in organizations such as schools, although the answer lacks detail in certain areas. Relevant examples and business management terminology have been used, but there is limited, if any, evidence of critical thinking.

Award 7–8 marks if there is a thorough and well-balanced discussion of how different management and leadership styles can influence the level of staff motivation in organizations such as schools. There is effective application of leadership *and* motivation theories. Relevant examples and business management terminology have been effectively used.

Question 2.3.3 Leadership and management styles

- (a) Situational leadership is probably most suitable for a small local restaurant with just 13 members of staff. Being a small firm, there may be no need for an autocratic leader. However, key decisions need to be made with clear management and leadership, so democratic and laissez-faire leadership might also not be suitable.
- (b) An authoritarian/dictatorial leadership style will probably prevail in the armed forces. This is because military personnel need to follow strict procedures, routines and commands in order for there to be any chance of success/survival. Decision-making comes from the top and there is little time (or point) in negotiating strategies with the workforce.

- (c) A 'typical' secondary school will probably be run in a democratic manner (although this will clearly depend on the situation, the type of school, its teachers and support staff and the nature/ability/motivation of the students). The teachers are likely to be highly skilled professionals so the senior management team is unlikely to ignore or to disregard the input of the teaching staff.

For each question above, award *1 mark* for a relevant leadership or management style, with up to a further *2 marks* for a clear justification/explanation of the answer.

Question 2.3.4 Situational leadership

- (a) In the case of Harvey who is seeking permission to take two weeks off work to look after his critically ill father, the issues to consider include:
- Whether Harvey is a highly valued member of staff, i.e. is he trustworthy, hardworking and respected?
 - This is likely to be a one-off request as his father is 'critically ill'.
 - Not granting permission might be counter-productive as Harvey is likely to be distracted and highly demotivated at work whilst his father was ill.
 - A supportive leadership style, such as paternalistic leadership, may be appropriate.
 - There are also ethical issues (corporate social responsibility) for the management team to consider if they were to decline Harvey's request.
- (b) In the case of Nicole, who is highly demotivated and lacks effort, the issues to consider include:
- A directive leadership style may be appropriate to ensure that Nicole puts in more effort to achieve individual and team targets.
 - A telling/directing leadership style might be necessary as Nicole is unable and/or unwilling to complete tasks. This could be combined with the use of SMART targets to get Nicole back on track with her work performance.
 - Alternatively, a supportive leadership might be appropriate to establish the root causes of Nicole's demotivation and possible causes of conflict within the team. Reprimanding her could be counter-productive and lead to further conflict and demotivation.
 - The management team may need to take more drastic measures if Nicole does not meet the standards stipulated in her employment contract.
- (c) In the case of Morgan who has complained that her line manager is using bullying tactics and is not observing the equal opportunities policy of the organization, the issues to consider include:
- Leaders need to understand the particular circumstances of a situation in order to choose the most appropriate type of authority to implement, e.g. using position authority to remind Morgan's line manager that he or she must adhere to company policies and statutory requirements such as equal opportunities.
 - Alternatively, a selling/coaching leadership style might be appropriate as this is used when employees (such as the line manager) have the ability but are not fully committed, and so they need persuading and coaching in order to accomplish organizational targets. This means the effective leader has concerns for both tasks (accomplishing goals in line with company policy) and people (the line manager and his or her team).

Award *1–3 marks* if the answer lacks relevance/coherence/reasoning and may not cover all three situations.

Award *4–6 marks* if there is some use of relevant situational theories, although the answer lacks detail/clarity in areas. All three situations are covered. At the lower end, the answer might be presented in a list-like format with little, if any, elaboration.

Award 7–9 marks if there is appropriate selection and explanation of various situational theories for all three situations. The explanations are clear, well applied and fully justified.

Unit 2.4 Motivation

Question 2.4.1 The world's richest billionaires

- (a) Motivation means the desire, effort and passion to accomplish something, i.e. the willingness to complete a task or job with enthusiasm. It refers to what drives a person to do what they do, be it for money, enjoyment and/or other intrinsic or extrinsic reason.

Award 1 mark if the description shows some understanding of motivation.

Award 2 marks if the description shows a clear understanding of motivation. The answer uses appropriate business management terminology and/or the use of an appropriate example.

- (b) Taylor's scientific management suggests that people are motivated by money, which in turn will improve productivity and quality. His theory tends to apply to low-skilled workers employed in the manufacturing sector. However, it is highly unlikely that the world's richest people are motivated by money alone. Wealthy people such as Gates, Ortega and Buffett do not conform to there being a single 'best' way to complete a task. Hence, it is unlikely that Taylor's theory applies to such people. In addition, Taylor's theories may not apply to those employed in non-governmental organizations (NGOs).

Maslow's hierarchy of needs suggests that people need sufficient remuneration (e.g. wages or salaries) to meet their physiological needs. However, once these needs are met, people become motivated by other factors (or needs): security, social, ego and self-actualization. Perhaps the world's richest people are ultimately after self-actualization as they strive to be the very best that they can, rather than being motivated purely by the money.

Award 1–2 marks for a generalised answer that is descriptive or lacks substance, although some understanding is shown.

Award 3–4 marks if there is some application of the theories, although the answer might lack appropriate use of examples. Award up to 3 marks if there is reference to only one theory (Taylor or Maslow).

Award 5–6 marks if there is thorough application of both Taylor and Maslow's theories, with appropriate use of business management terminology and relevant examples. There is likely to be appropriate reference to the case study.

- (c) Driving factors (for the world's richest people to continue working despite their age or their wealth) might include:
- The strive to achieve self-actualization – perhaps these people have not achieved their ultimate goal so continue to work for this purpose
 - They may simply be highly motivated and passionate about what they do, e.g. people like Warren Buffet enjoy and thrive on running large and diversified businesses
 - They might enjoy the challenge that work itself brings, rather than the financial benefits that come with the job
 - They might be highly competitive people who strive to achieve ever more; in fact, the *Forbe's* Rich List league table could spur these people to be more motivated to 'top' the chart.

Award 1–3 marks for a vague and generalised answer that lacks any detail and depth of discussion. Answers might appear in bullet-point form with no or little development.

Award 4–6 marks if the answer is mainly descriptive with some application of relevant motivation theory used in the context of the world's richest people.

Award 7–8 marks if there is a thorough discussion of factors that drive people to continue to work beyond the retirement age, despite their accumulated wealth. There is relevant application of motivation theory and appropriate examples are used.

Question 2.4.2 Richer Sounds

- (a) Productivity refers to the level of output per worker. Motivation can lead to improved labour productivity in several ways, including:
- Motivated workers at Richer Sounds 'have fun' or 'enjoy' their work, thereby helping to improve productivity
 - Higher morale and job satisfaction suggest that workers are likely to be more productive as their desire and/or effort to complete tasks will increase
 - Motivated staff are unlikely to cause industrial unrest in the workplace, thereby helping to boost output and productivity
 - Lower absenteeism (due to higher levels of motivation) also help to improve labour productivity.

Award 1–2 marks for a vague answer that lacks detail and/or depth. The answer might appear in a list-like format, with little if any explanation.

Award 3–4 marks if there is a thorough explanation of how motivation can lead to improved labour productivity. Relevant examples are used with appropriate use of business management terminology.

- (b) The views of leaders such as Julian Richer can affect the successful implementation of motivation in several ways, including the following points:
- Leaders who hold a pessimistic view about their workers because they oversee a low-skilled workforce who value direction from senior managers.
 - Leaders who have an optimistic view about their workers are suited to organizations that encourage and value creativity. They also welcome the views of the staff.
 - Managers who believe in the human relations school of thought are more likely to use job enrichment, job enlargement, job rotation and team working (Herzberg's motivation theory). By contrast, those who believe that there is a single 'best' way to get things done will use a more scientific management approach (F.W. Taylor).
 - The 'wrong' leadership view (or wrong interpretation) will therefore adversely affect the level of motivation in the workplace.
 - If the leader him/herself is demotivated, then this is likely to have adverse effects on the workforce (a case of leading by example).
 - Julian Richer's beliefs (e.g. the importance of 'having fun' or that demotivation costs the business far more money than that used to motivate staff) will also directly affect his actions (e.g. to internally promote his staff), thereby influencing the worker's level of motivation.

Award 1–2 marks if the answer is rather vague and there are major omissions.

Award 3–4 marks if the answer demonstrates a good level of understanding but lacks detail or clarification in some areas. There is some attempt at applying the answer to the case study.

Award 5–6 marks if there is a thorough examination of how the views of leaders can affect the level of motivation in an organization. Appropriate business management terminology and relevant examples are used effectively.

Question 2.4.3 Morris Business School

- (a) A non-government organization (NGO) is a private sector, not-for-profit business that operates for the benefit of others rather than primarily aiming to make a profit. Any surplus tends to be reinvested back into the business rather than being distributed as earnings for its owners. Examples include Oxfam, Friends of the Earth and Morris Business School (MBS).

Award 1 mark if the description shows some understanding of the term non-government organization.

Award 2 marks if the description shows a clear understanding of the term non-government organization. The answer uses appropriate business management terminology and/or the use of relevant examples.

- (b) According to the theory of Adams, the extent to which the remuneration structure at MBS might motivate its employees depends on the comparative rewards from the perspective of its employees. The perceived equity at MBS depends on the ratio of inputs (contributions made by the staff at MBS) to outcomes (financial and non-financial rewards offered to the staff). Based on the figures provided, we can calculate the following:

	Vice president	Marketing lecturer
Salary	\$78 000	\$45 000
Housing allowance	\$10 000	\$18 000
Gratuity (22%)	\$17 160	\$9 990
Pension	\$1 250	\$1 250
Total compensation	\$106 410	\$74 150

From the financial data, the following can be deduced:

- The VP earns 73.33% more salary than the marketing lecturer. Based on equity theory, this suggests that the marketing lecturer would expect the vice president to have a significantly higher input at MBS.
- Therefore, the VP also earns 73.33% more in gratuity than the lecturer.
- The lecturer receives \$8000 more in housing allowance, but this amount is not gratuitable (only the salary qualifies for the end of contract bonus).
- Pension contributions are the same for both the VP and lecturer. It is debatable whether this has any direct impact on motivation as the amount is insignificant (1.6% of the VP's salary and 2.77% of the lecturer's salary) and the workers do not receive the pension until retirement age.
- However, the total compensation (remuneration) is significantly lower for the VP, who earns 43.5% more than the lecturer. This might aggrieve the VP, who would receive the same amount of pension contributions from MBS and a lower housing allowance, despite being a senior member of staff.
- However, other considerations also need to be taken into account, e.g. annual paid holidays, hours of work, roles and responsibilities, medical cover/benefits, education allowance, and the working environment (such as office space).
- Alternative theories (such as Maslow's hierarchy of needs or Pink's drive theory) can also explain how and what motivates workers, rather than only a firm's remuneration structure. Such an approach should be rewarded accordingly if answered in the context of the case study.

Award 1–3 marks if the answer is vague and lacks coherence, although there is demonstration of some understanding of equity theory.

Award 4–6 marks if the answer uses equity theory to addresses MBS's remuneration structure to motivate its employees, but lacks detail in certain areas. Award up to 5 marks if an unbalanced answer is provided. There is little, if any, evidence of evaluation.

Award 7–8 marks if there is a thorough examination of how equity theory can be used to evaluate the extent in which MBS's remuneration structure might motivate its employees. There is a balanced answer that considers qualitative factors that affect motivation, not only the financial data given in the case study. There is appropriate business management terminology and evidence of critical thinking/evaluation.

Question 2.4.4 Calculating financial rewards

- (a) A time-rate financial reward system is a remuneration scheme that pays staff based on the amount of time they devote to their work, e.g. wage per hour or salaried staff who are paid a fixed amount per month.

Award 1 mark if there is some understanding of time-rate as a reward system.

Award 2 marks if the meaning of time-rate is accurate, with the appropriate use of business management theory and examples.



- (b) $\$5 \times 12.5 = \62.50 per week

Apply the own figure rule (OFR) as appropriate in questions that require calculations.

For Questions 2.4.4 (b), (c) and (d), award 1 mark for the correct working out, plus 1 mark for the correct answer.

- (c) (i) Annual gross income = $\$2\,400 \times 12 = \$28\,800$
 (ii) Annual taxable income = $\$28\,800 - \$15\,000 = \$13\,800$
 (iii) Annual take-home pay = $\$15\,000 + (\$13\,800 \times 0.85) = \$26\,730$

- (d) $(\$12\,500 \times 12) / 52 = \$2\,884.62$

- (e) $\$1\,000 + (\$15\,000 \times 0.055) = \$1\,825$

Award 1 mark if the correct answer (\$1 825) is given, and up to a further 2 marks for showing the full working.

Question 2.4.5 Camden International Consultants

- (a) Possible consequences of implementing Mairead Taylor's plans for Camden International Consultants include:
- A 5% pay cut is likely to cause resentment and reduce employee morale – this will therefore negatively impact upon productivity, at least in the short term.
 - Staff may feel they are being monitored and/or less trusted by the management team because of the new performance appraisal system (company policy is a hygiene factor according to Herzberg).
 - However, if CIC maintains the perks for its consultants (housing allowance, profit related pay and company car), this might allow staff to still meet their security needs (Maslow's hierarchy of needs).
 - From a culture perspective, it could be argued that some consultants will work harder in order to meet their performance appraisal targets and be awarded their annual profit related pay and/or a possible pay increment.

- CIC can improve its competitiveness (according to the new CEO) by cutting its fees by up to 3% for its clients. If this ensures CIC remains competitive, then it might be able to better meet the security needs of its staff in the long term.

Award 1–2 marks if the answer is vague and lacks coherence. There may be little, if any, reference to motivational theory.

Award 3–4 marks if the response is sound although may be lacking in depth in some areas. There is appropriate application of relevant motivational theory although relevance to Camden International Consultants may be limited.

Award 5–6 marks if there is a good examination of the likely consequences of implementing the new CEO's plans. The answer makes good use of examples from the case study and there is effective use of motivational theory.

- (b) Performance-related pay systems reward employees (be they individuals, teams or a whole workforce) who meet certain goals, e.g. competence in a job or reaching sales targets. Mairead Taylor's proposal to remunerate consultants by using performance appraisals is likely to have both positive and negative outcomes, such as:

- Financial incentives for consultants who reach their targets should ensure that staff work hard(er) to enhance the quality of their service to CIC's clients.
- If administered properly, it is seen as a fairer system because hard work is rewarded; Adams' equity theory suggests that staff remuneration packages (output) should reflect their efforts (input).
- The pressure to perform will mean that there are greater expectations of consultants to carry out their jobs.

However, the new CEO's proposal to use performance appraisals for consultants might also have some disadvantages, such as:

- The difficulty (and subjectivity) in measuring aspects of the 'performance' of management consultants makes such payment systems difficult to implement, e.g. a consultant could deliver extremely valuable advice to clients, although this does not always lead to proportionately more revenue for CIC. It can be difficult to measure the 'quality' of the service they provide.
- Resistance to change from the consultants, thereby creating tension between staff and senior management. In extreme circumstances, this might lead to industrial unrest and/or higher staff turnover.
- The added pressures on consultants could cause job dissatisfaction and lower motivation. Some motivation theorists suggest that motivation is best improved through fostering better human relations at work.

Another challenge for the CEO is that the new performance appraisals and targets must be set in a transparent and fair way. The change process must be clearly communicated to the staff, i.e. the rationale for change and why it will benefit the organization and its clients. As CIC is already 'highly successful', Mairead Taylor might have some difficulties in implementing her plans; so effective change management processes must be set in place.

Award 1–2 marks if the answer is rather vague and lacks coherence. The answer may appear in a list-like format, with minimal, if any, explanation.

Award 3–5 marks if there is consideration of the CEO's proposal to remunerate consultants by using performance appraisals, although the answer lacks detail in places. There is some good application to the case study but the answer lacks judgement/evaluation.

Award 6–8 marks if there is a thorough consideration of the CEO's proposal to remunerate consultants by using performance appraisals. Appropriate business management terminology is used effectively and there is good application of the case study. At the top end, there is clear evidence of critical thinking/evaluation.

Question 2.4.6 Pfizer

- (a) Internal recruitment refers to the employment practice of hiring people who already work for the organization to fill a vacancy, instead of hiring someone new to the organization. Likely benefits for Pfizer in using internal recruitment for most of its managerial positions include:
- Motivational – Internal recruitment for promotional posts can act as a form of motivation at Pfizer. By providing internal people with opportunities for promotion suggests to staff that *Pfizer* values its employees. Hence, internal promotion can also create employee loyalty and commitment to the pharmaceutical company.
 - Cost effectiveness – It is usually cheaper and quicker to recruit from within the organization than to recruit externally.
 - Less risk – Candidates who are suitable for management positions may be readily available within Pfizer so the firm will be able to identify such people without having to recruit from outside the organization.
 - Less down-time – Internal people are already familiar with how Pfizer operates and its culture. They are therefore usually more able to adapt and settle into the new management position than those who are new to the organization. There is less of a need to induct and train the new managers.

Award 1–2 marks if the answer lacks detail and/or substance. Award 1 mark for a list of unexplained benefits of internal recruitment.

Award 3–4 marks if there is a good commentary on the likely benefits to Pfizer in using internal recruitment. upper end, appropriate examples are used to substantiate the answer in the context of Pfizer.

- (b) Reasons why a culture of risk-taking is important to pharmaceutical firms such as Pfizer include:
- The need to be innovative in the industry requires staff to conduct ground-breaking research by taking risks. Innovation is integral to the culture of successful pharmaceutical companies such as Pfizer.
 - In such highly competitive occupations, the need to achieve suggests that workers need to take (at least some) moderate risks in order to stand out from the competition.
 - The huge research and development (R&D) costs signify the high level of risks as a feature of the pharmaceutical industry (in addition to acting as a barrier to entry into the industry).
 - The culture would suit Pfizer's highly skilled and competent staff who excel with the freedom to be able to take on risks (otherwise they would be severely constrained if the culture was risk-averse).

Award 1–2 marks for a vague answer that lacks detail and/or depth. Application to the pharmaceutical industry is missing.

Award 3–4 marks if there is a good explanation of why a culture of risk-taking is important to pharmaceutical firms such as Pfizer. Business management terminology and applied examples are used effectively.

- (c) The answer should consider the costs and benefits of using financial rewards as a method of motivation. The works of theorists such as F.W. Taylor's Scientific Management, Maslow's Hierarchy of Needs and J.S. Adam's Equity Theory can be explored to answer this question.

Whether managers over-estimate the importance of financial rewards as motivators is debatable and this depends on numerous issues, such as:

- Management and leadership style, e.g. autocrats who believe in scientific management might favour the use of financial rewards to motivate their staff.
- View on what motivates staff, e.g. Taylorite theory suggests that the use of financial rewards to motivate staff should not be underestimated.
- Remuneration being offered by rival employers, i.e. financial rewards must be sufficiently attractive to recruit and retain staff.

- Consideration of non-financial motivators, e.g. Pfizer uses Individual Development Plans to help employees progress in their careers – this does not evolve around financial rewards alone.

Award 1–3 marks if the answer is vague and lacks coherence. The answer might appear in a list-like format with little or no explanation.

Award 4–6 marks if the answer addresses the issue of using financial rewards to motivate employees, but lacks detail in certain areas. At the lower end, an unbalanced answer is provided. There is little, if any, evidence of critical thinking.

Award 7–8 marks if there is an examination of both the costs and benefits of using financial rewards to motivate workers. Evaluation has been attempted in addressing the extent to which managers might over-rate the use of financial rewards to motivate their staff. Appropriate business management terminology and examples are used effectively.

Question 2.5.1 Warwick Park school

- a) Organizational culture is the set of beliefs that guides the way that people within an organization behave, based on what is considered to be acceptable (and not acceptable). At Warick Park School (WPS) there does not seem to be a culture of learning because only 15% of students meet the national examination standards ('staff and students had grown accustomed to failure'). Perhaps this culture was fostered by an ineffective senior management team at the school.

Award 1 mark for a vague outline of organizational culture, with some understanding shown.

Award 2 marks for a clear outline of organizational culture and an answer that makes appropriate use of the case study.

- (b) Paramesh Murali, the new principal, may have felt that the (radical) changes were needed for several reasons:
- Teachers and students were not deemed to be engaged in their teaching and learning; hence a change to the organizational culture was seen as being absolutely necessary.
 - The poor examination results were indicative of a poor culture of (quality) teaching and learning at the school.
 - As the principal, Paramesh Murali might feel that no school should be 'accustomed to failure', especially as he had a reputation for turning around failing schools.
 - He was hired to improve the quality of teaching and learning at the school, so the changes were seen as instrumental to achieving his targets.
 - Teachers needed to be given an ultimatum – improve their performance or lose their jobs.

Award 1–2 marks for a vague answer that lacks detail and/or there is a lack of application to WPS.

Award 3–4 marks if there is a good explanation of why Paramesh Murali, the new principal, felt the need to change the organizational culture at WPS. Relevant business management terminology and examples are used effectively.

- (c) The staff are concerned mainly about potential job losses for teachers deemed to be underperforming under the new principal's proposals. They had grown used to a culture of failure, where the senior management team was perhaps somewhat laid back in their approach. The radical changes would cause anxieties and stress among the workforce.

Paramesh Murali felt the need to change the organizational culture at WPS. He could manage this situation in several ways (any change management model could be applied). Nevertheless, it is vital that clear and

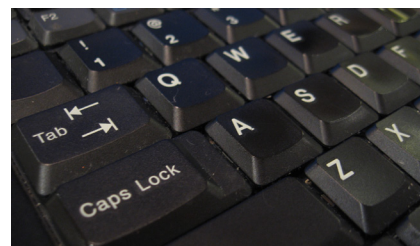
concise communication with the workforce is necessary (in the first staff meeting). Paramesh felt the need to change the organizational culture at WPS so he would need to explain (and perhaps justify) the reasons for his proposals. For example, teaching staff need to understand the full benefits of performance management (being linked to their pay). They also need reassurances that staff working towards their set targets would not be simply retrenched. The benefits of the restructured timetable might also be used to win some support.

Award 1–2 marks if there is some understanding of the demands of the question shown, although the answer might be rather generalized and/or the suggestions may lack substance.

Award 3–4 marks if there is a concise commentary on how the principal might realistically handle the concerns of the teaching staff. There is appropriate use of business management terminology throughout the answer and effective use of the stimulus material.

Question 2.5.2 Organizational culture at Lenovo

- (a) Culture is the set of beliefs and values held by the staff of an organization, thereby determining what is considered the 'norm' in the business. Therefore, culture clash exists when there is conflict or incompatibility between two or more cultures within an organization, e.g. when two firms from different parts of the world integrate via a takeover.



Award 1 mark for a vague outline of cultural clashes, with some understanding shown.

Award 2 marks for a clear outline of cultural clashes, with an appropriate example used.

- (b) Problems that Lenovo might have faced in its attempt to integrate two different corporate cultures include:
- The cultural differences between Eastern and Western firms create a natural barrier to effective integration of the different cultures. National cultures have a direct impact on organizational culture (as shown by the work of Geert Hofstede).
 - Cultural differences can also lead to conflict (differences in opinions) and these have to be managed effectively in order for a merger or joint venture to succeed.
 - Resistance to change from Lenovo's workforce (including the managers) because staff are likely to resent changes to the culture that they are used to.
 - Geert Hofstede's cultural dimension 'power distance' also suggests that Lenovo would face difficulties in its takeover of IBM personal computers – China's high power-distance rating means that workers at the Chinese firm are accustomed to being introvert (not voicing their opinions, for example) whereas IBM would have had a low power-distance rating.
 - Language barriers might also have existed, e.g. different interpretations of the same word/message in different languages and/or messages that are lost in translation.

Award 1–2 marks if the answer is rather vague and lacks coherence and/or application to Lenovo.

Award 3–4 marks if there is some examination of the problems that Lenovo might have faced when attempting to integrate two different corporate cultures. The answer lacks detail/depth in areas.

Award 5–6 marks if there is a clear examination of the likely problems that Lenovo might have faced in its attempt to integrate two different corporate cultures. Appropriate business management terminology and examples have been used effectively.

Question 2.5.3 Wahaha and Danone's joint venture

- (a) It is important to understand corporate culture and international culture when engaging in cross-border joint ventures for several reasons, including:
- Culture clash clearly exists between Wahaha and Danone and hence the subsequent conflict between these cultures limits their ability to progress as a joint venture. Conflict can also occur when a firm expands overseas and is ignorant of international cultural differences.
 - Culture is largely formed by the subjective views of people and it becomes ingrained in the workers' minds of how they see the organization (and how it should be run). This is even more problematic when dealing with two sets of international cultural differences in two large organizations (Wahaha and Danone) with a substantial workforce.
 - Having a strong and unified corporate culture creates a sense of belonging and security for staff because they feel that they are part of the joint venture. This can help to improve cross-border cooperation and to raise overall motivation in the organization.
 - Mistakes and misunderstandings may be minimized as staff are familiar with the policies, processes and protocol at work.
 - It can be argued that as markets become more competitive and globalized, such as the drinks industry, organizations such as Wahaha and Danone are forced to adapt to change in order to survive. If this is the case, then success for the cross-border joint venture requires organizational cultures to adapt and embrace the changes.
 - Ultimately, corporate cultures and international cultures may need to change when there is a joint venture in order to gain from economies of scale and synergies. In reality, organizations that cannot adapt to work in the new culture are likely to fail.

Award 1–2 marks if the answer is generalized or lacks substance.

Award 3–4 marks if there is a thorough explanation of the importance of understanding (differences in) corporate and international cultures for the success of cross-border joint ventures. Appropriate business management terminology has been used, with relevant examples used.

- (b) Consequences of culture clashes within organizations, when leadership styles change, include the following:
- Disputes over how things ought to be done, such as approaches to health and safety issues.
 - Misunderstandings and miscommunications – A change in leadership often results in communication problems as employees do not fully understand the reasons for change.
 - Resistance to change – Employees are likely to resent changes to the culture that they are used to, perhaps due to fear of the unknown.
 - Unhappy staff – Cultural clashes resulting from a change in leadership styles will tend to make people unhappy in the workplace.
 - There are likely to be major disruptions to output and lower productivity. It will take time, effort and resources to ensure that the culture gap is minimized.
 - If not managed carefully, the cultural clashes can result in poor employer-employee relations and cause industrial disputes. This is particularly the case if a merger or takeover results in mass job losses.

Award 1–2 marks if the answer is rather vague and lacks coherence and/or the use of relevant examples.

Award 3–4 marks if there is some examination of the consequences of culture clashes within organizations. The answer lacks detail in areas. Relevant examples are included.

Award 5–6 marks if there is a clear examination of the likely consequences of culture clashes within organizations, when leadership styles change. Appropriate business management terminology and examples have been used effectively.

Question 2.5.4 The Body Shop



- (a) The corporate culture at The Body Shop seems to be one that values being green (environmentally friendly) and conducting business in a socially desirable way. Its core values clearly reflect the desired corporate culture of the organization, e.g. acting ethically by not testing their products on animals.

Award 1 mark for a vague description of the corporate culture at The Body Shop.

Award 2 marks for a clear description of the corporate culture at The Body Shop that makes appropriate use of the case study.

- (b) Having a strong belief in ethical business behavior can shape the culture of The Body Shop in several ways. For example, an organization that believes in being 'green' will most likely be engaged in operations that use sustainable resources. Having such core values communicated clearly to the whole organization means that the staff are more likely to work harmoniously to achieve the firm's corporate objectives. For example, employees who believe in the philosophy and culture of The Body Shop will act in such a way to 'protect the planet', perhaps by reusing resources, reducing the use of resources and recycling waste.

Such a culture can clearly offer competitive advantages to organizations, e.g. The Body Shop has thrived on using its core values as its distinctive selling point. Customers who share these values are more inclined to buy (or even switch to buying) products from The Body Shop. This is evident in the case of The Body Shop which operates under the 5 core values that shape the company's culture (since it now has operations in over 60 countries, serving more than 80 million customers a year).

Award 1–2 marks if the answer is rather vague and lacks coherence and/or application.

Award 3–4 marks if there is some examination of how ethical business behaviour can shape an organization's culture or provide it with competitive advantages, although the answer lacks detail or relevance to The Body Shop.

Award 5–6 marks if there is a clear examination of how ethical business behaviour can shape corporate culture, with reference to how this might benefit The Body Shop. Appropriate business management terminology has been used effectively throughout the answer.

Unit 2.6 Employer and employee relations

Question 2.6.1 Small versus large

- (a) The public sector referred to is the part of the economy under the ownership and control of the government, e.g. government hospitals, state schools and the police force.

Industrial action is the collective term for various activities taken by disgruntled employees due to disputes over working conditions and practices, e.g. pay disputes. It is a result of poor employer-employee relationships or conflict at work.

Award 1–2 marks if the terms are defined, although there may be some omissions or a lack of clarity. Appropriate examples may be missing.

Award 3–4 marks if both terms are correctly defined. There is effective use of relevant business management terminology and examples related to the case study.



- (b) Mass-scale industrial action, such as major trade union protests, can affect business opportunities in several ways, including:
- The international competitiveness of UK businesses is likely to fall with any prolonged mass-scale industrial action involving such a large number of workers.
 - Mass-scale industrial action will disrupt business operations in the UK, thereby having a negative impact on the country's unemployment.
 - Public services would suffer as hospitals, schools and public transport services would be negatively affected by the mass-scale industrial action.
 - A fall in labour productivity, thereby reducing the output of UK businesses and further deteriorating its international competitiveness, especially as the public sector accounts for a large proportion of the country's gross domestic product (GDP).

Answer 1–2 marks if the answer is vague and lacks coherence, and may be presented in a list-like format.

Award 3–4 marks if there is some examination of how mass-scale industrial action might affect the business opportunities of a country, although the answer lacks detail in some areas. At the lower end, there is little, or no, application to the case study.

Award 5–6 marks if there is a clear and succinct examination of how mass-scale industrial action might affect the business opportunities of a country. There is effective use of business management terminology and appropriate reference to the stimulus material.

Question 2.6.2 Indonesia's national strike action

- (a) Strike action is a form of industrial action that involves employees refusing to work. It is usually used as a last resort due to major industrial disputes such as large-scale pay disputes.

Award 1 mark if the description shows some understanding of strike action.

Award 2 marks if the definition shows a clear understanding of strike action, with appropriate application.

- (b) Alternatives to strike action as a form of dealing with industrial disputes include:
- Negotiations – Skilled labour union negotiators could be used to deal with the government representatives, with the aim to get to a win-win solution to reconcile conflicting interests. Perhaps the 44% increase in the minimum wage is deemed by unionists to be insufficient, so needs to be renegotiated.
 - Overtime bans – Labour unionists, such as the factory workers, may choose to refrain from working beyond their contracted hours, thereby causing disruptions to business activity.
 - Work-to-rule – Labour unionists might opt do the absolute minimum required according to the rules set by their employers, thereby delaying output reducing productivity.
 - Go-slow – Workers might also choose to operate at the minimum pace allowable in their employment contracts, again diminishing productivity without employers being able to discipline those who work at the contractually acceptable pace.
 - Public Relations – The use of PR specialists to deal with the media and for issuing press releases and other information that portray the labour unions in a positive manner, e.g. comparing wages with the cost of living in China and India.

Award 1–2 marks if the answer is vague and lacks coherence, and may appear as a list of unexplained points.

Award 3–4 marks if two alternative methods have been examined, although not in sufficient detail and there may be a lack of application. Award up to 3 marks for answers that cover one method, thoroughly examined in the context of the case study.

Award 5–6 marks if two appropriate methods are examined in the context of the case study. There is appropriate and effective use of business management terminology.

Question 2.6.3 Deutsche Telekom



- (a) A walk-out occurs when workers collectively leave (or walk out of) their place of work as a sign of protest or disapproval of management decisions. It does not necessarily involve many staff and can happen spontaneously (unplanned). By contrast, strike action is an extreme case of industrial action with workers refusing to work, usually as a result of major industrial unrest such as pay disputes or protests about work hours. Hence, strike action happens on a larger scale (the 11 000 employees who went on strike) and can seriously affect the operations of businesses such as Deutsche Telekom.

Award 1 mark for a vague definition that shows limited understanding.

Award 2–3 marks for clear definitions of the two terms. For 3 marks, the answer must show a clear distinction between a walk-out and strike action.

- (b) Conflict occurs when stakeholders have a difference in their opinions and this often causes friction and/or arguments within the workplace. At Deutsche Telekom, the sources of conflict include:
- Proposed pay cuts – this would clearly upset workers whilst the management team strives to balance remuneration with the need to control the company's costs.
 - Increased working hours – this would cause conflict as workers have added pressures placed on them; there might also be legal issues surrounding changes to employment contracts.
 - Power struggle – workers at Deutsche Telekom feel that their views are not being heard and that they have little influence over decisions being made by the company.

Award 1–2 marks if the answer is vague and lacks coherence. There is little, if any application to the case study.

Award 3–4 marks if one source of conflict is thoroughly commented on or if two sources of conflict are appropriately commented on. There is correct use of business management terminology and good application to Deutsche Telekom.

Question 2.6.4 Human Rights Watch and Walmart

- (a) A non-governmental organization (NGO) is one that is created and owned by private individuals or a business with no direct association with the government. NGOs, such as Human Rights Watch, are not usually funded by the government although they are run for the benefit of others in society.

Corporate social responsibility refers to the moral behaviour of businesses towards their stakeholders, such as their employees and the local community. Examples might include the implementation of fair pay and working conditions for its workers.

Award 1–2 marks if the terms are defined, although there may be a lack of clarity. Appropriate examples/application might be missing.

Award 3–4 marks if both terms are correctly defined, with suitable examples related to the case study.

- (b) The independent reports that suggested Walmart employees were dissatisfied over the company's perceived lack of corporate social responsibility could cause conflict for several reasons, including:
- The perceived poor pay and working conditions suggest that Walmart employees would be displeased.
 - Similarly, as there seems to be no union representation for the employees, Walmart does not meet the needs of its many employees. This can cause conflict due to the insecurity that is caused.
 - The lack of CSR suggests that Walmart ignores the interests of the society and does not take responsibility for the impact it has on its various stakeholder groups, e.g. the local communities that rely on Walmart to provide employment would resent the company's lack of CSR.

Award 1–2 marks for a vague answer that lacks detail and/or depth. The answer might appear in an unexplained list-like format.

Award 3–4 marks if there are good explanations of how a (perceived) lack of corporate social responsibility at Walmart can cause conflict. Relevant examples are used with appropriate use of business management terminology.

- (c) Conflict resolution is the set of actions taken to resolve differences in opinion and disputes in the workplace. It works when each party's interests are addressed, leading to a satisfactory outcome (or a 'win-win' situation) for all sides.

There are several ways that Walmart can resolve the conflicts in the company, such as:

- Improve communications between employees and the management – Better communication between employees and management can promote a better understanding of each other's wants and needs, thereby developing their relationship. However, since Walmart operates on such a large scale, effective communication can be extremely difficult (and expensive) to accomplish.
- Negotiations – This method allows both parties to address each other's needs, such as pay and working conditions, in order to establish a mutually acceptable outcome. However, if neither party is willing to compromise during the negotiation process, then a win-win outcome will not be reached thereby possibly intensifying the conflict.
- Mediation – This method involves bringing in a third party (the mediator) to act as a middle person between Walmart management and the employees. By avoiding face-to-face confrontation, this method can help to prevent the conflict from escalating. The different viewpoints would be collected separately by the mediator and he/she would recommend a solution for the situation. If both parties agree to this, then the conflict is resolved. However, mediation is cumbersome and bureaucratic, i.e. it tends to be more time consuming than negotiation and effective communication. As a third party is involved, it could also mean that this method is more costly than the other two. In addition, the relationship between management and employee may well weaken as the conflict is not sorted out face to face.

Award 1–3 marks if the answer is vague, lacks coherence and may appear in an unexplained list-like format.

Award 4–6 marks if there is an examination of various methods that could be used to resolve conflict, although detail and/or application is lacking in some areas. Evaluation is not attempted.

Award 7–9 marks if the answer shows that conflict resolution is clearly understood with appropriate examination and evaluation of various methods that could be used. There is effective use of business management terminology and application to Walmart.

ANSWERS

Unit 3.1 Sources of finance

Question 3.1.1 London Olympic Games

- (a) **Revenue expenditure** is spending on the daily running of a business, such as wages and materials used in the preparation for the 2012 Olympic Games. **Capital expenditure**, on the other hand, refers to the finance spent on purchasing fixed assets, such as the land, buildings and machinery used in preparation of the Olympic Games in London.



Award 1–2 marks if the terms are defined although they lack some detail/clarity. Examples may also be missing.

Award 3–4 marks if both terms are clearly defined and a distinction is made between revenue expenditure and capital expenditure. There is good use of examples and proficient use of business management terminology.

- (b) There are potential benefits to various stakeholders, such as:
- Pre-Olympic Games, firms in the construction and transport industries will be involved in the infrastructure needed to host the Olympic Games, e.g. building an Olympic stadium.
 - Huge opportunities exist for job creation and human resource planning. The development and preparation of the Olympic Games will create jobs and wealth in the local community, London and the UK, thereby providing further potential benefits to UK businesses.
 - The Olympic Games will attract a huge volume of foreign visitors and tourists to London and the UK, thereby providing many opportunities, e.g. airlines and hotels will tend to benefit from the influx of tourists in London.
 - Homeowners near the Olympic Village are likely to benefit from higher property prices due to the necessary improvements in transportation links (Transport for London) and infrastructure in the area.
 - The government benefits from increased tax revenue, e.g. higher expenditure taxes from spending in the economy and higher corporate tax revenues from the boost in profits of London and UK-based businesses.
 - There are huge marketing opportunities for British multinationals, including advertising agencies and sponsorship deals. Broadcasters and corporate sponsors also enjoy the global attractiveness of the Olympic Games.

Businesses in London are likely to benefit the most, although other stakeholders, such as employees and the local community, are also likely to benefit. There must be a clear examination of at least two different stakeholder groups to be awarded maximum marks.

Award 1–2 marks for a generalized answer that is descriptive, or lacks substance/relevance (to the case study). The answer might appear in a list-like format.

Award 3–4 marks if there is an analysis of the benefits of hosting the Olympic Games, but the answer might lack detail/depth. Award up to 3 marks if only one stakeholder group is considered.

Award 5–6 marks if there is a thorough examination of the benefits for various stakeholder groups of the Olympic Games being held in London. There is effective use of business management terminology, used in the context of the case study.

Question 3.1.2 Agricultural Bank of China (ABC)

- (a) An initial public offering (IPO) occurs when a company floats its shares on a stock exchange for the very first time. For example, ABC floated its shares in both Shanghai and Hong Kong. In doing so, ABC became a public limited company.

Award 1 mark if the definition shows some understanding of ‘initial public offering’.

Award 2 marks if the definition shows a clear understanding of ‘initial public offering’, with appropriate application.

- (b) Reasons why ABC might have decided to float its shares on the stock market include the following:
- The main benefit of issuing shares in a company is the potential to raise a huge amount of share capital. In the case of ABC, it was able to raise \$22.1 billion, significantly improving its cash flow and sources of finance.
 - The extra source of finance would allow ABC to compete against more established global banks such as Citibank, HSBC, Bank of China and ICBC, especially as it would be able to expand its operations within and beyond China.
 - Expansion (funded by the IPO) allows ABC to have a greater market presence, thereby enhancing its corporate image.
 - In addition, ‘going public’ allows a business to have the protection of limited liability.

Award 1–2 marks if there is some understanding shown, although the answer might be rather generalized and/or the suggestions may lack substance.

Award 3–4 marks if there is a concise commentary on why ABC might have decided to float its shares on the stock market. There is appropriate use of business management terminology throughout the answer.

- (c) Investors in the stock market tend to buy for the medium to long term. Given that ABC is China’s third-biggest lender, with more than 325 million customers, this may have provided sufficient reason (i.e. a sense of security) for investors to pour money into the company.

Question 3.1.3 Kellett School

- (a) Debentures allow Kellett School to finance its capital expenditure for expansion purposes, i.e. construction of the new campus with its improved facilities. The issuing of debentures also enabled school fees to be cut, thereby possibly improving the school’s competitiveness in the private education sector.

Award 1 mark if the answer shows some understanding of why Kellett School decided to sell debentures.

Award 2 marks for an answer that clearly outlines why Kellett School decided to sell debentures as a major source of finance.

- (b) There seems to be justified reasoning behind Kellett School’s decision to issue debentures. The capital raised from the debentures is to be reinvested in the school (e.g. auditorium, swimming pool, Astroturf multisport areas, library and state-of-the-art classrooms) to benefit the students. Other reasons include:
- Parents are compensated, to some extent, by the reduction in school fees (which could perhaps increase parental goodwill and support).
 - It is an equitable system as parents with more than one child at the school get a ‘discount’ on the purchase of their debentures.

- Perhaps the opportunity cost is for parents to save this money in their bank accounts, but this does not have any direct benefit to their children.

Award 1–2 marks for a vague answer that shows a limited understanding of why parents might agree to buy the debentures.

Award 3 marks if a clear level of understanding is shown with a good explanation of why most parents might agree to purchase the debentures. Appropriate application is shown.

- (c) Potential drawbacks for a school that chooses to raise finance through the sale of debentures include the following:
- There may be conflict and resistance from the parents; HK\$10m (US\$1.29m) is a lot of money!, especially for those from less affluent backgrounds.
 - There could be negative publicity as Kellett School might be seen to be acting unethically; the debenture fee could be seen as excessive given that other schools such as Harrow International School charge significantly lower fees.
 - Schools are not necessarily able to generate a surplus (in the same way as profit-seeking organizations) to pay interest to debenture holders.
 - Issuing debentures will lead to an increase in Kellett School's level of gearing, possibly affecting its working capital unfavourably.

Award 1–2 marks if the answer explains one drawback in detail or two drawbacks are outlined but lack detail. Appropriate examples/application might be missing.

Award 3–4 marks for an answer that clearly explains the potential drawbacks to a school that chooses to raise finance through the sale of debentures. Appropriate business management terminology and examples related to the case study are used effectively.

- (d) Alternative sources of finance that Kellett School could have used might include:
- Mortgage or bank loans, e.g. business development loans
 - Donations from parents, the local community, alumni and the business community
 - Selling dormant assets, e.g. sale of land at the old campus
 - Fund-raising events, e.g. school fair (fete or carnival)
 - It is debatable whether these alternative methods would raise the HK\$200m (US\$25.8m) needed for the new campus.

Award 1–2 marks for a generalized answer that is descriptive or lacks substance.

Award 3–4 marks if there is an examination of other alternative sources of finance that Kellett School could have used, although the response lacks detail and/or application.

Award 5–6 marks if there is a clear examination of two alternative sources of finance that the school could have used. Relevant examples are used in the context of Kellett School, with reference to the stimulus material.

Question 3.1.4 Tiffany Diamonds Ltd

- (a) Debt factoring is a financial service whereby a financier (such as a commercial bank) collects debts on behalf of other businesses in return for a fee. For example, a debt factor might take on the \$180 000 owed to Tiffany Diamonds Ltd., for which it charges a fee of 20% of the debt.

Award 1 mark if the definition shows some understanding of debt factoring.

Award 2 marks if the definition shows a clear understanding of debt factoring, with appropriate application and/or an example used.

- (b) $80\% \text{ of } \$180\,000 = 0.8 \times \$180\,000 = \$144\,000$

This is \$4 000 more than the forecast cash flow deficit

Hence the cash flow problem should be (just) solved.

Award up to 2 marks for the calculation (apply rule of 'error carried forward' as appropriate) and a further 2 marks for the explanation.

Question 3.1.5 Wizz Air

- (a) Sale-and-leaseback is a source of external finance. It involves a business such as Wizz Air selling fixed assets, such as commercial aircraft (to raise finance) and immediately leasing these back. In essence, the airline transfers ownership of the assets (in this case to Chinese CDB Leasing Co.) although they do not physically leave the business.

Award 1 mark if the definition shows some understanding of sale-and-leaseback.

Award 2 marks if the definition shows a clear understanding of sale-and-leaseback, with an appropriate example used.

- (b) There are several advantages of leasing for businesses such as Chinese CDB Leasing Co. For example, leasing provides an extra revenue stream for Chinese CDB Leasing Co. as the lessee (Wizz Air) pays rental income to hire the assets.

As Wizz Air is in need of raising cash, this creates an opportunity for Chinese CDB Leasing Co. to acquire these assets (in this case, the six Airbus A320 aircraft) at a competitive price (\$549 million).

Award 1–2 marks for a vague answer that lacks detail and/or depth. There may be little, if any, application to Wizz Air. Award 1 mark for an unexplained list of advantages.

Award 3–4 marks if there are good explanations of the advantages of leasing assets to established organizations such as Wizz Air. Appropriate examples are used and there is relevant application.

Question 3.1.6 MG Rover

- (a) Business angels are private individuals who invest their own money in business ventures that offer potentially high returns. The Phoenix Four 'rescued' MG Rover by putting in £60 000 each after having bought the company from previous owners BMW with the expectation that MG Rover would reap them a reward.

Award 1 mark if the description shows some understanding of business angels.

Award 2 marks if the description shows a clear understanding of why the Phoenix Four might be classed as business angels, with appropriate application to MG Rover.

- (b) Drawbacks of using business angels include:

- Lack of experience in the field, i.e. the Phoenix Four were not familiar with the motor manufacturing industry. This can lead to gross mismanagement of the organization.
- Conflict of interest – it is stated that the Phoenix Four gave themselves 'extravagant financial rewards'.

- As business angels, the Phoenix Four may not have had their hearts truly in the business. Business angels tend not to make follow-on or continual investments in the same firm.

Award 1–2 marks if the answer explains one drawback in detail or if two drawbacks are vaguely outlined. Appropriate examples/application might be missing.

Award 3–4 marks for clearly explaining the dangers outlined in the article concerning the use of business angels. Appropriate terminology and examples related to the case study are used.

- (c) External sources of finance are those that are obtained from outside the organization, e.g. overdrafts, bank loans and debentures. The profitability of a business is likely to have a huge impact on its ability to raise external finance because:
- banks and other creditors tend not to lend to high-risk customers with a low credit rating, i.e. those that are unlikely to be able to repay their debts
 - debt factoring service providers are unlikely to take on clients with poor credit ratings
 - by contrast, firms with high profitability have collateral (security) to offer to lenders in case they default on their loans
 - trade creditors are more likely to grant preferential credit terms to clients with a good record of profitability
 - shareholders tend not to hold onto shares of companies that have low profitability, and this indirectly affects the firm's ability to raise finance through external methods
 - highly profitable firms can also enjoy financial economies of scale, i.e. borrowing more and at a relatively lower rate of interest.

Award 1–2 marks if the answer is generalised and is descriptive. It lacks substance, although there is limited understanding shown.

Award 3–4 marks if there is some analysis of how the profitability of a firm affects its ability to obtain external sources of finance, although the answer is not fully substantiated.

Award 5–6 marks if there is thorough analysis of how the profitability of a firm such as MG Rover affects its ability to obtain external sources of finance. Appropriate business management terminology has been used and there is effective application in the answer.

Unit 3.2 Costs and revenues

Question 3.2.1 Airline costs

- (a)
- Advertising and promotions = Fixed cost
 - Airport charges = Fixed cost
 - Fuel = Variable cost
 - Meals and drinks onboard = Variable cost
 - Remuneration of administrative staff = Fixed cost
 - Remuneration of pilots and flight attendants = Variable cost

Award 1 mark if only two costs are correctly identified.

Award 2 marks if four costs are correctly identified.

Award 3 marks if all six costs are correctly identified.

- (b) A direct cost is specifically related to a particular flight. For a flight on a no-frills airline carrier, the catering costs are considered to be direct costs. Without the flight, these costs would not be incurred. By contrast, indirect costs have to be paid, irrespective of whether the flight takes place, e.g. the airline's stationary and photocopying costs, rents paid to the airport authorities, advertising costs, and contributions towards employee pension schemes. These costs are not directly linked to a particular flight.

Award 1–2 marks if the two terms are outlined although the answer lacks some detail/clarity. Examples might also be missing.

Award 3–4 marks if both terms are clearly understood and a distinction is made. There is good use of examples and proficient use of business management terminology.

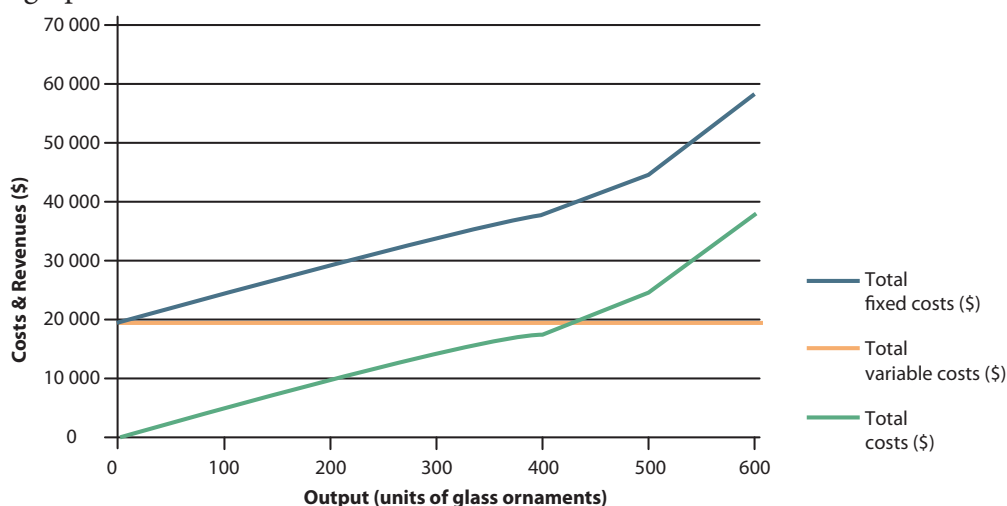
Question 3.2.2 Calculating business costs

- (a) Costs of producing fine glass ornaments:

Output (Units)	Total fixed costs (\$)	Total variable costs (\$)	Total costs (\$)	Average costs (\$)
0	20 000	0	20 000	-
100	20 000	5 000	25 000	250.0
200	20 000	10 000	30 000	150.0
300	20 000	14 500	34 500	115.0
400	20 000	18 000	38 000	95.0
500	20 000	25 000	45 000	90.0
600	20 000	38 200	58 200	97.0

Deduct 1 mark for each error, but apply the own figure rule (error carried forward) where appropriate.

- (b) See graph



Award 1 mark for accurately scaling and labeling the y-axis, e.g. 'Costs and revenues (\$)'.

Award another 1 mark for accurately scaling and labeling the x-axis, e.g. 'Output – units of glass ornaments'.

Award a further 1 mark each for correctly drawing and labeling the total costs, fixed costs and total variable cost curves, up to 3 marks.

(c) Reasons for the shape of the cost curves:

- Fixed costs line – TFC remain the same irrespective of the output level, e.g. rent and overhead costs. Hence, the shape of the fixed costs line is horizontal, intersecting the y -axis at \$20 000.
- Total variable costs line – Variable costs increase with the level of output, e.g. glass to make the ornaments. It costs \$5 000 to make 100 units and \$10 000 to make 1000 units so the more that are produced the higher the variable costs. Hence, the shape of the line is upwards sloping.
- Total costs line – Total costs are the sum of fixed and variable costs. Hence, if nothing is produced, the firm still has to pay its fixed costs. Therefore, the TC line starts at the same level as TFC, i.e. \$20 000. It is parallel to the TVC line because the vertical distance between TC and TVC at each output level is the TFC.



Award up to 2 marks for explaining the shape of each cost curve, up to 6 marks.

Question 3.2.3 Goff's Organic Fresh Fruits (GOFF)

- (a) A wholesale market is a marketplace where firms purchase large quantities of products (fruits and vegetables in this case) from a producer (farmers in this case) and then separate or break their bulk purchases into smaller units for resale to retailers such as GOFF.

Award 1 mark if there is some understanding of wholesale market, although the answer might lack clarity.

Award 2 marks if wholesale market is clearly defined, with the use of an example related to the case study.

- (b) Two other indirect costs not mentioned in the case study could include:

- Insurance for Ian Goff's vehicle
- Advertising costs
- Rates (tax) to the government for the running of his business
- Fees for professional services, e.g. accountancy or solicitor's fees
- Utility bills for the store.

Award 1–2 marks if the answer outlines in detail one other indirect cost that might have to be paid or if two advantages are vaguely outlined. Appropriate examples/application might be missing.

Award 3–4 marks for clearly outlining two other indirect costs that GOFF might have to pay. Appropriate business management terminology and examples related to the case study are used.

- (c) Cost = $\$0.8 \times 50 \text{ kg} = \40
 Revenue = $\$1.2 \times 50 \text{ kg} = \60
 Profit = $(\$1.2 - 0.8) \times 50 \text{ kg} = \20

Award 1 mark for a correct answer without any working out shown.

Award 2 marks for the correct answer and incomplete working out shown.

Award 3 marks for the correct answer with full working out shown.

- (d) $(80 \text{ kg} \times \$2.00) + (20 \text{ kg} \times \$1.50) = \$190$



Award 1 mark for a correct answer without any working out shown.

Award 2 marks for the correct answer with the working out shown.

Question 3.2.4 Manchester United Football Club

- (a) Revenue stream can be defined as the money coming into a business from its various activities and operations, e.g. sales revenues, sponsorship deals, merchandise, membership fees and royalties.

Award 1 mark if the explanation shows some understanding of revenue stream although the answer lacks clarity and/or relevant examples.

Award 2 marks if the explanation shows a clear understanding of revenue stream, with appropriate examples.

- (b) Chevrolet and Pepsi might want to sponsor a club, such as Manchester United Football Club (MUFC) due to several reasons, such as:
- The huge amount of publicity that sponsors would enjoy; each time MUFC plays competitively, their sponsor's logo is being marketed.
 - A large sports club, such as MUFC valued at over \$3 billion, would help the Chevrolet and Pepsi to get international exposure, with its many supporters from around the world.
 - Sponsors may have exclusive marketing rights, e.g. to advertise during live football matches.
 - The sponsors might be associated with an image of health and fitness, following its association with football and MUFC.
 - Through sponsorship deals, Chevrolet and Pepsi may gain greater brand awareness and possibly brand loyalty.
 - Sponsorship of well-known clubs or organizations such as MUFC can be very cost-effective marketing.

Award 1–2 marks for a vague answer that lacks detail and/or depth. There is a lack of application to the case study.

Award 3–4 marks if there is a good explanation of why the likes of Chevrolet and Pepsi might want to sponsor a large football club such as MUFC. There is effective use of business management terminology and relevant examples are used.

- (c) Although the sponsorship deal with Mansion was financially more attractive to MUFC back in 2006, the management team clearly felt that non-financial factors needed to be considered before agreeing on a new sponsorship deal.

Had MUFC opted for the Mansion deal, there would have been an extra \$21.5m worth of funds. However, it is likely that the management team at MUFC did not want to be associated with a sponsor involved in gambling. This is especially important since a significant segment of its fan base is young children, resulting in a decline in the sales of its football outfits and other merchandise resulting from the negative perception associated with gambling and unethical business behaviour. MUFC, therefore, may have been acting in accordance with its policy on corporate social responsibility.

The bottom line is the management did not feel the extra \$21.5m was worth the risk in upsetting the Club's reputation amongst its key stakeholders and fan base.

Award 1–2 marks for a generalized answer that is descriptive or lacks substance. There is some understanding shown.

Award 3–4 marks if there is some examination of whether the management at MUFC was correct to select AIG as its sponsor, although the answer might lack depth and appropriate application. There is limited, if any, justification given to support the arguments presented.

Award 5–6 marks if there is a thorough assessment of whether the senior management at MUFC was correct to select AIG as its sponsor despite the larger offer from Mansion, with appropriate use of examples and business management terminology. There is justification given to the arguments presented, with effective reference to the case study.

Unit 3.3 Break-even analysis

Question 3.3.1 Calculating the break-even quantity

(a) $BEQ = \$200\,000 \div (\$35 - \$10) = 8000 \text{ units}$

Award 1 mark for the correct answer without any working out shown.

Award 2 marks for the correct answer with full working out shown.

(b) $\text{Total revenue} = \$35 \times 8\,000 = \$280\,000$

Award 1 mark for a correct answer without any working out shown. Apply the own figure rule (error carried forward) as necessary.

Award 2 marks for the correct answer with the working out shown. Apply the own figure rule (error carried forward) as necessary.

(c) $\text{Total costs} = \text{Total fixed costs} + \text{Total variable costs}$

$$\$200\,000 + (\$10 \times 8\,000) = \$280\,000$$

Award 1 mark for a correct answer without any working out shown. Apply the own figure rule (error carried forward) as necessary.

Award 2 marks for the correct answer with the working out shown. Apply the own figure rule (error carried forward) as necessary.

Question 3.3.2 Calculating the margin of safety

(a)

(a) $500 - 250 = 250 \text{ units}$

(b) $500 - 300 = 200 \text{ units}$

(c) $(300 \div 500) \times 100 = 60\%$

Award 1 mark for calculating each correct answer.

(b) Tread-it has the better margin of safety (MOS) than Play-it when measured as a percentage of the break-even quantity, i.e. 100% and 60% respectively. However, Play-it has the better MOS in absolute terms, i.e. 300 units rather than 250 units. Nevertheless, it tends to be better to use the first method (the percentage above the BEQ) for comparisons across different industries (hiking shoes and children's wooden toys).

Award up to 2 marks for the definition and explanation of the margin of safety. Award up to a further 2 marks for an answer that demonstrates a clear understanding of why Tread-it has the better margin of safety or for explanation why the answer depends on the method chosen to measure the MOS.

Question 3.3.3 TMR Day-Care Centre

- (a) Total fixed costs = \$1840 (Rent, Salaries, Administration and Utility bills)

Award 1 mark for the correct answer without any working out shown.

Award 2 marks for the correct answer with the correct working out shown

- (b) $BEQ = \$1840 \div (\$20 - \$4) = 115$ child places

Award 1 mark for the correct answer without any working out shown.

Award 2 marks for the correct answer with the correct working out shown.

- (c) Daily demand = 80% of capacity = $25 \times 0.8 = 20$ child places per day

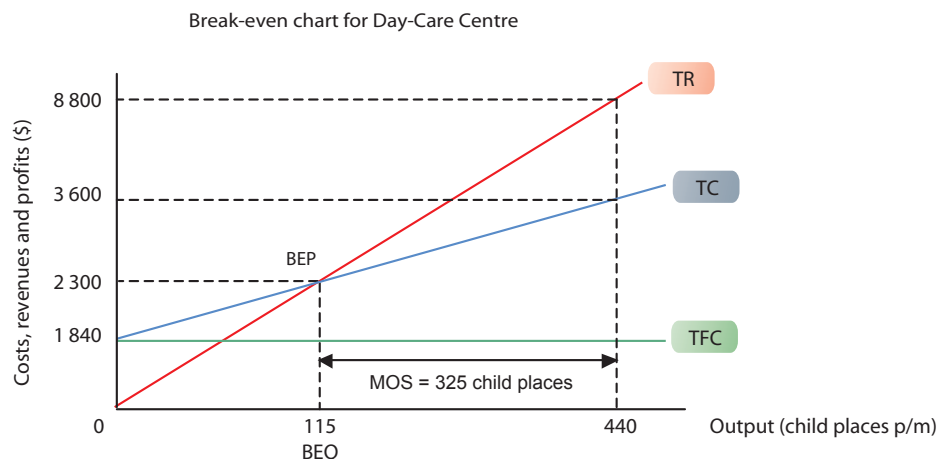
Monthly demand = 20 children $\times$ 22 days = 440

Safety margin = $440 - 115 = 325$ child places (or a very attractive 282%)

Award 1 mark for the correct margin of safety, but working out is not shown or is inaccurate.

Award 2 marks for the correct answer with the correct working out shown.

- (d) Graph: value of TR (and TC) at BEQ = $\$20 \times 115 = \$2\,300$



Award 1 mark for each of the following that is accurately drawn/labelled: Title; Axis labels; TR line; TC line and scaling (of y-axis and x-axis).

- (e) See above graph for Break-even point, Margin of safety and Break-even level of output.

Award 1 mark for each item that is correctly identified on the break-even chart, up to the maximum of 3 marks.

(f) Strengths (application needed) might include:

- It is quick to construct and easy to understand, especially for one product businesses such as TMR Day-Care Centre.
- As a management decision-making tool, BEA can be used to study the impact of changes in the price (per child, per day), fixed costs and/or variable costs.
- It can be useful when TMR Day-Care Centre needs to seek external finance, perhaps for expansion reasons, especially as it has a high MOS.



Weaknesses (application needed) might include:

- Fixed costs do not necessarily remain constant, e.g. rent and salaries may increase, thus distorting findings from the break-even analysis.
- Average costs are unlikely to be constant due to economies of scale, e.g. materials costs per child might not remain at \$4 with more children at the day-care centre.
- Thuy and Mark Rees might consider changing the price to entice greater demand, i.e. it does not necessarily remain constant.
- Cost and revenue figures are based on estimates which may not prove to be accurate.
- Break-even analysis is a static model so the results are of limited use.

Award 1–2 marks for a generalized answer that lacks detail or is presented in a list-like format.

Award 3–4 marks for an examination of the strengths and weaknesses of break-even analysis. The answer might lack clarity and/or appropriate application. Award a maximum of 3 marks for an unbalanced answer, i.e. the answer does not account for both strengths and weaknesses of using break-even analysis.

Award 5–6 marks for a thorough examination of the strengths and weaknesses of using break-even analysis for businesses such as TMR Day-Care Centre. There is effective use of relevant business management terminology.

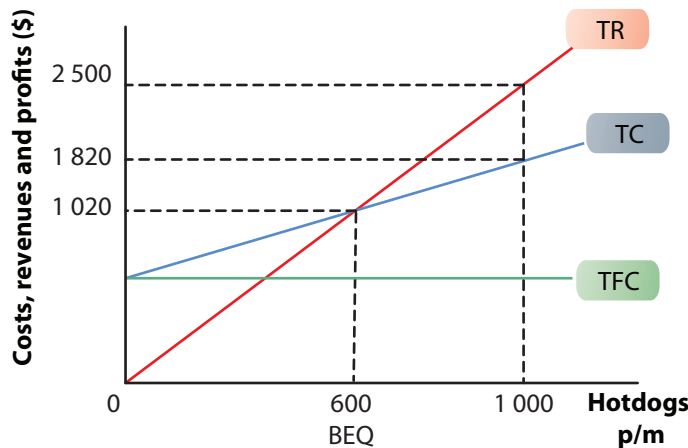
Question 3.3.4 RT's Hotdogs

(a) Award 1 mark for each of the following:

- Sales revenue line drawn and labelled accurately and correctly
- Fixed cost line (at \$1 020) drawn and labelled accurately correctly
- Total costs line (starting at \$1020) drawn and labelled accurately and correctly
- Intersection of the sales revenue line with the total costs line at **600 units**
- Clearly showing on the x -axis that the BEQ = 600 hotdogs p/m.



Break-even chart for RT's Hotdogs



- (b) Rent increases by 50% = $200 \times 1.5 = \$300$

Hence, the revised fixed costs = $\$300 + \$500 + \$320 = \$1\,120$

A new fixed cost line should therefore be plotted.

The new BEQ is therefore: $\$1\,120 / (\$2.5 - \$0.8) = 659$ hotdogs p/m

This should be shown on the break even chart.

Daily sales increase by 70% = $200 \times 0.7 = 140$ hotdogs sold, i.e. Rhys Thomas sells an extra 30 hotdogs each day. Therefore the difference between revenues and costs is greater, i.e. *RT's Hotdogs* makes more profit.

For maximum marks, the answer must: show all working out (1 mark), show the effect of higher costs on the fixed costs (1 mark) and the subsequent impact on BEQ (1 mark). There should also be a brief commentary (2 marks) of the change (reduction) in BEQ.

Question 3.3.5 Mendoza Taxi Services

- (a) $BEQ = 6400 \div (330 - 130) = 32$ taxi journeys.

Award 1 mark for the correct answer without any working out shown.

Award 2 marks for the correct answer with the correct working out shown.

- (b) $MOS = 66 - 32 = 34$ taxi journeys (i.e. 106% greater than its BEQ).

Award 1 mark for the correct answer without any working out shown.

Award 2 marks for the correct answer with the correct working out shown.

- (c) Profit = Total contribution – Total Fixed Costs
 Profit = $[(330 - 130) \times 66] - 6\,400$
 = $13\,200 - 6\,400$
 = 6 800 peso per month
 = 81 600 pesos per year

Award 1 mark for the correct answer without any working out shown.

Award 2 marks for the correct answer with partial working out shown.

Award 3 marks for the correct answer with the correct working out shown.

(d) Target profit = 8 000 per month

$$TR - TC = 8\,000 \text{ per month}$$

$$66P - [6\,400 + (130 \times 66)] = 8\,000$$

$$66P - (6\,400 + 8\,580) = 8\,000$$

$$66P - 14\,980 = 8\,000$$

$$66P = 22\,980$$

$$P = 348.18 \text{ peso per taxi journey}$$

Check:

- $TR = 66 \times 348.18 = 22\,980$ pesos
- $TC = 6\,400 + (66 \times 130) = 14\,980$ pesos
- Profit = $22\,980 - 14\,980 = 8\,000$ pesos (the target profit)

Award 1 mark for the correct answer without any working out shown. Accept answers that round down to 348 pesos or up to 350 pesos.

Award 2 marks for the correct answer with partial working out shown.

Award 3 marks for the correct answer with the correct working out shown.

Question 3.3.6 Rodriguez Art Studio Ltd.

(a) $BEQ = \$3\,000 \div (\$20 - \$5) = 200$ customers per month

Award 1 mark for the correct answer, but working out is not shown or is inaccurate.

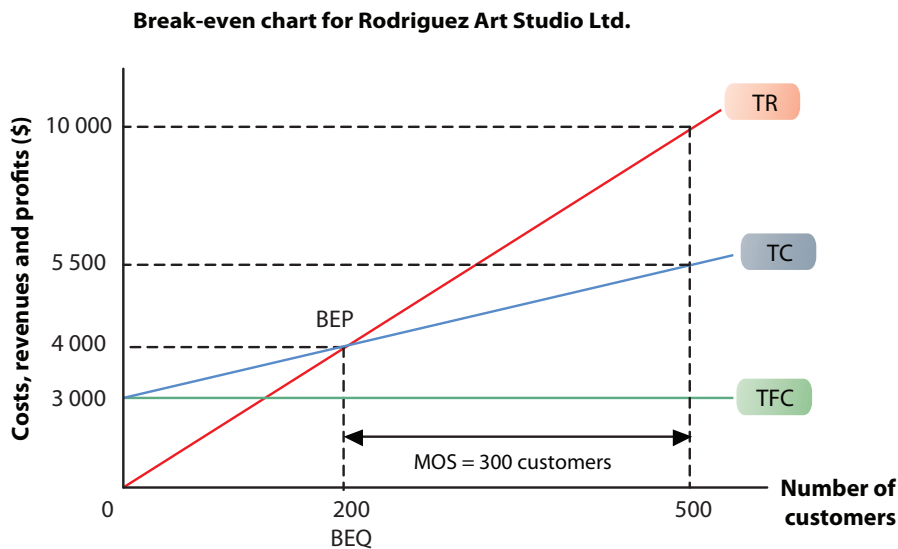
Award 2 marks for the correct answer, with the correct working out shown.

(b) The margin of safety = $500 - 200 = 300$ customers

Award 1 mark for the correct answer, but working out is not shown or is inaccurate.

Award 2 marks for the correct answer, with the correct working out shown.

(c) Graph



Award 1 mark for each of the following that is accurately drawn/labelled:

- o Title
- o Axis labels
- o TR line
- o TC line and
- o TFC line

up to the maximum of 5 marks.

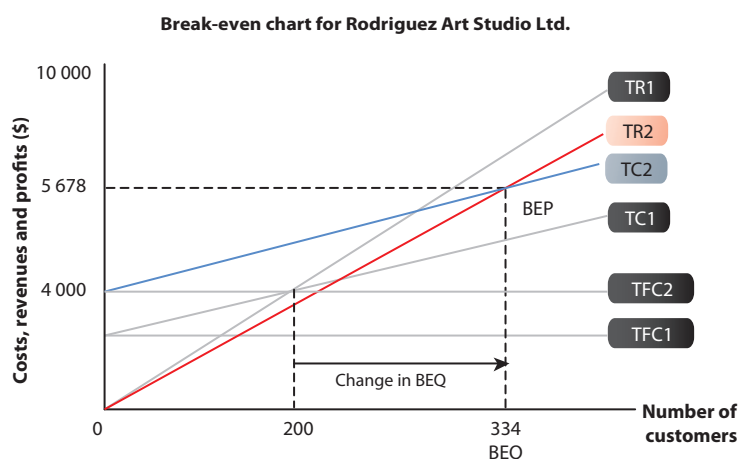
(d) New break-even = $\$4\,000 \div (\$17 - \$5) = 334$ customers

This means the BEQ has increased by 67%.

Award 1–2 marks for correctly calculating the new break-even quantity, with working out shown. There is no comment made about the change in the BEQ.

Award 3 marks for correctly calculating the new break-even quantity, with the correct working out shown. There is an appropriate comment made about the change in the BEQ.

(e) Graph. The MOS must be shown on the diagram for maximum marks.



Award 1 mark for each correctly drawn/labelled item:

- new Total Revenue line
- new Total Cost line
- new Break-even quantity (it is not necessary to show the new Total Fixed Cost line to calculate or show the new BEQ).

(f) Explanation that this was a poor decision because the change in profit = \$4 500 – \$2 240 = a loss of \$2 260 by reducing price, brought about by the 67% increase in the break-even quantity.

Award 1–2 marks if the explanation is incomplete and/or vague. The answer might lack the application of numerical data from the case study.

Award 3–4 marks if the explanation is thorough and there is good use of numerical data from the case study.

Question 3.3.7 Airbus A380

(a) Revised MOS = $750 - 420 = 330$ aircraft

Award 1 mark for the correct answer, but the working out is not shown or is inaccurate.

Award 2 marks for the correct calculation, with full working out shown.

(b) The previous MOS = $750 - 270 = 480$ aircraft. The answer should explain that a lower MOS leads to lower levels of profit and therefore exposes *Airbus* to further risks.

Award 1–2 marks if there is some understanding of how the change in the margin of safety will affect *Airbus*. The commentary might lack clear application to the case study or be presented in a list-like format.

Award 3–4 marks for an applied commentary that demonstrates a clear understanding of how the change in the MOS will affect *Airbus*. Relevant examples and appropriate business terminology have been used.

(c) Students should clarify what they see as an ‘improvement’ in communication in the workplace. Measures used to judge the efficiency of communication could include:

Award 1–2 marks if there is some understanding of how delays and/or soaring production costs might affect profits. The commentary lacks clear application to *Airbus* and/or is presented in a list-like format.

Award 3–4 marks for an applied commentary that demonstrates a clear understanding of how the delays and soaring production costs might affect the profits of *Airbus*. Relevant examples and business management terminology have been used effectively.

(d) The answer should consider both the advantages and disadvantages of BEA for *Airbus*, with evaluation of its value/usefulness. Selling a single product (the A380) might make BEA highly suitable for such a large and expensive project. Break-even analysis is likely to be a short-lived tool for the *Airbus* A380 project; once the firm reaches break-even, the management tool no longer proves as useful to the organization for this specific product.



Award 1–2 marks for a vague or bullet-pointed answer that shows limited understanding.

Award 3–5 marks for an unbalanced answer that lacks depth/clarity. At the top end, appropriate application has been attempted.

Award 6–7 *marks* for a thorough discussion of the value of break-even analysis as a management tool for businesses such as Airbus. There is reference to the stimulus material with relevant business management terminology and examples used. For maximum marks, there is evidence of critical thinking, such as the acknowledgement of other management tools that are likely to be of value to Airbus.

Unit 3.4 Final accounts

Question 3.4.1 Nestlé

- (a) Stakeholder groups of Nestlé include:
- Shareholders (Nestlé is a listed company on the Swiss Stock Exchange)
 - Competitors, e.g. Mars and Cadbury's
 - Employees who work for Nestlé
 - Managers who run the business on a daily basis
 - Customers of Nestlé's large range of products
 - Governments (Nestlé is a large multinational company).

Award 1 *mark* for each relevant stakeholder group identified, up to 2 *marks*.

- (b) The examination must stem from the stakeholder groups identified in part (a) of the question. For example:
- Shareholders – interested in assessing the financial health and the profitability of Nestlé.
 - Competitors – interested in benchmarking financial data with Nestlé, which can help with strategic decision-making, e.g. changes to Nestlé's marketing strategies.
 - Managers – use final accounts to judge the operational efficiency of Nestlé, enabling them to set new targets for strategic planning.

Award 1–2 *marks* if the answer is generic with little, if any, application to Nestlé.

Award 3–4 *marks* if the answer is sound, although it might lack depth in some areas. Award up to 3 *marks* if only one stakeholder group is examined.

Award 5–6 *marks* if there is a thorough examination of the importance of final accounts to two stakeholder groups of Nestlé. There is effective use of appropriate business management terminology and examples.

Question 3.4.2 Trading account for Clockworks Ltd

- (a) Closing stock is the value of a firm's stocks at the end of a trading period. The value is equal to that of the opening stock minus the value of costs of goods sold (COGS) in a given trading period.

Award 1 *mark* for a vague definition of closing stock.

Award 2 *marks* if the concept of closing stock is clearly defined with appropriate use of business management terminology.



(b) Trading account for Clockworks Ltd., year ended 31 March 2014

	\$	\$
Sales (\$35 × 3 000)		105 000
Cost of Goods Sold:		
Opening stock	15 000	
<i>Plus</i> Purchases	50 000	
<i>Less</i> Closing Stock	20 000	
		<u>45 000</u>
Gross Profit		<u>60 000</u>

Question 3.4.3 Masks-R-Us Ltd

(a) P&L account for Masks-R-Us for the period ended 31 August

	\$	\$
Sales revenue (\$9 × 15 000)		135 000
Cost of Goods Sold:		
Opening stock	10 000	
<i>Plus</i> Purchases	35 000	
<i>Less</i> Closing Stock	11 000	
		<u>34 000</u>
Gross Profit		<u>101 000</u>
<i>Less</i> Overhead expenses		16 000
Net profit before interest and tax		85 000
<i>Less</i> interest		7 000
Net profit before tax		78 000
<i>Less</i> tax		7 800
Net profit after interest and tax		<u>70 200</u>

Deduct 1 mark for each error, applying the own figure rule (error carried forward). Award 1 mark for an appropriate title.

(b) Interpretations from the P&L could include:

- Gross profit is healthy as it represents around 66% of sales revenues.
- Net profit is also healthy, at over 50% of sales revenue, because overheads are insignificant.
- However, as the P&L account is only a snapshot of the position of Masks-R-Us, no strong conclusions can be made.
- To make a proper judgement of the financial position, the cash flow statement, cash flow forecast and balance sheet should also be used.



- In addition, there is a need to benchmark the data, i.e. historical and inter-firm comparisons.

Award *1–3 marks* if the commentary is vague and/or incoherent. The answer might appear in an unexplained list-like format. Award up to 3 marks for an unbalanced answer.

Award *4–5 marks* if the commentary is sound, with reference to Question 3.4.3a. There is an appropriate interpretation of whether the financial performance of Masks-R-Us Ltd. can be judged solely on this information. There is good use of business management terminology.

Question 3.4.4 Ahmed Educational Books Ltd.

- (a) Profit & Loss Accounts for Ahmed Educational Books Ltd., for years ended 31 December

	Year 2 (\$'000)	Year 1 (\$'000)	% change
Sales	500	450	11.1%
Cost of sales	200	180	11.1%
Gross Profit	300	270	11.1%
Expenses	100	90	11.1%
Net profit before interest and tax	200	180	11.1%
Interest Payable	10	0	
Taxation	48	45	6.6%
Net profit after interest and tax	142	135	5.2%
Dividends	10	15	(33.3%)
Retained Profit	132	120	10%

Missing figures in bold: award *1 mark* per correct answer, up to the maximum of *5 marks*.

- (b) Shareholders of Ahmed Educational Books Ltd. may be pleased with the performance of the company because:
- Gross profit and Net profit (after interest and tax) have both increased, by 11.1% and 5.2% respectively.
 - Retained profit, an important source of internal finance, has increased by 10%.
 - The amount paid in taxation has only increased by 6.6% despite sales and gross profits increasing by 11.1%.

However, shareholders of Ahmed Educational Books Ltd. might also have some reservations about the performance of the business because:

- Despite sales revenues increasing by 11.1%, the cost of sales also increased by the same amount, i.e. there were no economies of scale.
- Dividends now represent only 10% of profit after tax (compared to 15% in the first year) – a drop of 33% being paid out to shareholders.



- Ahmed Educational Books Ltd. has incurred \$10 000 of debt interest; this has limited the growth in net profit before interest and tax to only 5.2% despite the gross profit having risen by 11.1%.
- The gross profit margin (GPM) has stayed at 60% despite the higher sales revenue.
- The net profit margin (NPM) has also remained the same at 40% despite the growth of the firm.
- The percentage increase in tax paid (6.6%) is greater than the percentage increase in net profits after interest and tax (5.2%).

In addition, shareholders would most probably want to consider qualitative (non-financial) factors too in their judgment of the firm's performance, e.g. the state of the economy or the extent to which Ahmed Educational Books Ltd. reached its corporate objectives. They might also want to benchmark the financial data with the company's main rivals to judge its performance.

Award 1–2 marks for a generalized or vague answer that lacks detail, but shows some limited understanding.

Award 3–5 marks if relevant points are examined but the answer is unbalanced (one-sided) or is not written in the context of Ahmed Educational Books Ltd.

Award 6–8 marks if there is a good, balanced discussion about whether the shareholders might be pleased with the performance of Ahmed Educational Books Ltd. There is evidence of critical thinking and the answer is likely to consider non-financial factors in making this decision.

Question 3.4.5 Marc Brothers Ltd.

Balance sheet for Marc Brothers Ltd. as at 31 March

	\$	\$
Fixed assets		
Property	630 000	
Machinery and vehicles	230 000	
Less Depreciation	<u>144 000</u>	
		716 000
Current assets		
Stock	30 000	
Cash	12 000	
Debtors	<u>16 000</u>	
	58 000	
Current liabilities		
Overdraft	13 000	
Net current assets		45 000
Total assets less current liabilities		761 000
Loan capital (debt)	380 000	
Net assets		381 000

Financed by:

Share capital	300 000	
Retained profit	81 000	
Equity		381 000

Question 3.4.6 Zawada Electronics Ltd.

- (a) Examples of fixed assets: premises, equipment and machinery.
Examples of stock: computer equipment and computer accessories.

Award 1 mark for each correct answer identified, up to 2 marks.

- (b) Balance sheet for Zawada Electronics Ltd. for years ended 31 December

	2014	2013
	\$'000	\$'000
Fixed assets	250	250
Current assets		
Stock	100	95
Cash	70	50
Debtors	<u>25</u>	<u>20</u>
	195	165
Current liabilities		
Creditors	50	50
Overdraft	<u>20</u>	<u>10</u>
Net current assets	70	60
Total assets less current liabilities	375	355
Less Long-term liabilities (debt):		
Long-term liabilities	50	80
Debentures	<u>50</u>	<u>50</u>
	100	130
Net assets	275	225

<i>Financed by:</i>		
	200	150
Share capital		
Retained profit	75	75
Equity	275	225

Award 1 mark for an appropriate title. Deduct 1 mark per error, but apply the own figure rule (error carried forward) where appropriate. The maximum number of marks for this question is 6 marks.

- (c) Working capital = Current assets *less* Current liabilities

2014: $195 - 70 = \$125\ 000$

2013: $165 - 60 = \$105\ 000$

Award 1 mark for each correct value stated, up to 2 marks.

Question 3.4.7 Senjaya Fabrics Ltd.

- (a) Share capital is the finance raised by a limited liability company from selling shares to individual and institutional shareholders. This permanent capital is invested in the business.

Award 1 mark for a vague definition of share capital.

Award 2 marks if the answer clearly defines share capital, with appropriate business management terminology used.

- (b) Balance sheet for Senjaya Fabrics Ltd. as at 31 March 20XX

	IDR (millions)	IDR (millions)
Fixed assets		
Property		350
Current assets		
Stocks	60	
Debtors	35	
Cash	<u>32</u>	
Total current assets	127	
Current liabilities		
Overdraft	30	
Creditors	<u>45</u>	
Total current liabilities	75	

Working capital	52
Total assets <i>less</i> current liabilities	402
<i>Less</i> Long-term liabilities (mortgage)	127
Net assets	275
<i>Financed by:</i>	
Share capital	175
Retained profit	100
Equity	275

Question 3.4.8 Harry Potter (J.K. Rowling)

- (a) Intellectual property rights (IPR) are the intangible assets of a person or organization which are legally protected by patents, trademarks and copyrights. They give the owner (such as authors) the legal right to own pieces of work or inventions.

Award 1 mark for a vague definition of intellectual property rights (IPR).

Award 2 marks if the answer clearly defines intellectual property rights (IPR), with appropriate examples used.

- (b) Benefits or reasons for protecting copyrights include:

- They protect the works of the author (J.K. Rowling) so that others cannot simply plagiarize her original ideas.
- They act as a barrier to entry so that the author, publishers and movie producers can generate more revenues.
- They can act as a source of income for the owner of the IPR, e.g. J.K. Rowling was able to reap the financial benefits of granting Warner Bros. and Universal Studios the legal rights to construct 'Harry Potter World'.

Award 1–2 marks if only one benefit is explained clearly or the answer lacks detail and/or depth. The answer might appear in a list-like format.

Award 3–4 marks if there are good explanations of two benefits of protecting copyrights. Relevant examples are used and there is appropriate reference to the case study.

- (c) Placing a financial value on IPRs is a difficult and somewhat subjective task. The 'true' value of IPRs such as the Harry Potter franchise cannot be accurately realized until the sale of the IPRs. The Harry Potter phenomenon with its huge fan base means that its associated IPRs are highly valued because they generate revenue streams and add value to the franchise. However, rather like shares on the stock market, the value of such intangible assets will fluctuate from time to time. If, for example, subsequent movies are not so successful, then the value of the IPR of the franchise might not be so lucrative.

Award 1–2 marks if the commentary attempts to address the subjective nature of placing a value on intellectual property rights but lacks detail/coherence. The answer might appear as a list with little, if any, elaboration.

Award 3–4 marks if the commentary explains the subjective nature of placing a value on intellectual property rights, in the context of the case study. There is effective use of business management terminology.

Question 2.4.9 Satine Enterprise Ltd.

(a) Reducing balance method:

Year	Depreciation	Net Book Value
0	0	\$25,000
1	\$8 750 (\$25 000 × 35%)	\$16 250
2	\$5 688 (\$16 250 × 35%)	\$10 563

Award 1 mark for the correct answer.

Award 2 marks if the correct answer is calculated, with partial working out shown.

Award 3 marks if the correct answer is calculated, with full working out shown.

(b) Straight line method of depreciation:

$$\text{Annualised depreciation} = (\$25\,000 - \$2\,900) / 5 \text{ years} = \$4420$$

Year	Depreciation	Net Book Value
0	0	\$25 000
1	\$4 420	\$20 580
2	\$4 420	\$16 160

Therefore, total depreciation = **\$8 840**

Award 1 mark for the correct answer.

Award 2 marks if the correct answer is calculated, with partial working out shown.

Award 3 marks if the correct answer is calculated, with full working out shown.

(c)

Method	Net Book Value (Year 3)
Reducing balance	\$6 865
Straight line	\$11 740

Hence, the reducing balance method depreciates the NBV of the car by a (significantly) greater amount in this time period.

Award 1–2 marks if there is a generalized answer, which lacks depth and/or substance or if no calculations are shown.

Award 3–4 marks for a detailed explanation of which method of depreciation would reduce the NBV of the car the most by the end of the third year. The answer includes the working out, which stems from the answers taken from Questions 3.4.9 (a) and 3.4.9 (b).

Unit 3.5 Profitability and liquidity ratio analysis

Question 3.5.1 Calculating profitability

(a) JKL Ltd.'s Profit & Loss Account for years ended 31 December (\$'000s)

	<u>Year 2</u>	<u>Year 1</u>
Sales revenue	1 000	850
Cost of goods sold	500	450
Gross profit	500	400
Expenses	100	40
Net profit before interest and tax	400	360

- Gross profit = Sales revenue – Cost of goods sold
- Year 2 Gross profit = \$1 000 000 – \$500 000 = \$500 000
- Year 1 Gross profit = \$850 000 – \$450 000 = \$350 000
- Expenses = Gross profit – Net profit
- Year 2 Expenses = \$500 000 – \$400 000 = \$100 000
- Year 1 Expenses = \$400 000 – \$360 000 = \$40 000

Award 1 mark for each correct answer.

(b) Year 2 GPM = \$500 k / \$1 000 k = 50.0%

Year 1 GPM = \$400 k / \$850 k = 47.05%

Year 2 NPM = \$400 k / \$1 000 k = 40.0%

Year 1 NPM = \$360 k / \$850 k = 42.35%

- The GPM in year 2 shows that for every \$100 of sales, \$50 is gross profit.
- The NPM in year 2 shows that for each \$100 sold, \$40 is generated as net profit (so expenses accounted for the other 10%).
- Whilst the GPM has improved, the NPM (the relatively more important figure for profitability) has declined; due to the large increase in expenses from \$40 000 to \$100 000 (150% increase).
- Overall, these figures show healthy profitability at JKL Ltd., although only limited information is provided.

Award up to 4 marks for calculating the correct answers for GPM and NPM, with full working out shown.

Award 5–6 marks if the calculations are full and accurate, with a detailed explanation. There is effective use of business management terminology.

- (c) The answer might include a definition of profitability (not profit). Profitability ratios examine the profit of a firm in relation to other figures, such as sales revenues in order to assess the financial performance of the business. Further information might include: forecast profits and sales figures, or the amount of capital invested in the JKL Ltd. Other information could include the use and analysis of:
- Return on Capital Employed (ROCE)
 - Benchmarking data
 - Looking at profit in relation to the size of JKL Ltd.
 - Objectives and targets of JKL Ltd.

Award 1–2 marks if the commentary is vague and/or incoherent. Answers might appear in an unexplained list-like format.

Award 3–4 marks if the commentary details further information that could be used to determine the profitability of JKL Ltd. There is good use of business management terminology.

Question 3.5.2 Calculating ROCE

- (a) Year 2 ROCE = $\$400 \text{ k} / \$1,000 \text{ k} = 40\%$
 Year 1 ROCE = $\$360 \text{ k} / \$800 \text{ k} = 45\%$

Award 1 mark for each correct answer, up to 2 marks.

Award 3 marks if both correct answers are given, along with the full working out.

- (b) ROCE is an efficiency ratio that measures the financial performance of a firm compared to the amount of capital invested in the business. In Year 2, JKL Ltd. returned 40% from the value of the firm, i.e. for every \$100 invested in the firm \$40 was generated as profit (before interest and tax). The ratio fell by 5% from the previous year, suggesting poorer use of the firm's capital, i.e. deteriorating efficiency.

Profitability can be judged by comparing to bank interest rates (40% is relatively high when compared to any bank deposit rate) or benchmarking against JKL Ltd.'s nearest rivals. The ROCE for both years is likely to be significantly higher than the return from savings offered by banks/financial institutions.

Award 1–2 marks if only one reason is explained clearly or the answer lacks detail and/or depth. The answer might appear in a list-like format, without any explanations.

Award 3–4 marks if there are good explanations of what the figures suggest about the efficiency and profitability of JKL Ltd. Relevant examples are used in the context of the case study.

Question 3.5.3 Calculating ratios

- (a) Year 2 Current Ratio = $700 / 300 = 2.33 : 1$
 Year 1 Current Ratio = $500 / 200 = 2.5 : 1$

$$\text{Year 2 Acid Test} = (700 - 350) / 300 = 1.17 : 1$$

$$\text{Year 1 Acid Test} = (500 - 250) / 200 = 1.25 : 1$$

Award 1–2 marks if only the correct answers are given without any working out, or if only the working out and correct answer is given for one of the ratios.

Award 3–4 marks if the correct answers are given along with the working out for both the current and acid test ratios.

- (b) JKL Ltd.'s liquidity position is quite favorable. In both years, the current ratio shows that there is sufficient working capital in the firm, e.g. in Year 2 for every \$1 of current liability, JKL Ltd. has \$2.33 of current assets. The slight fall in the ratio is not necessarily indicative of poorer liquidity as too high a current ratio means the firm is not using its resources efficiently (such as holding too much cash or stocks of textiles). Likewise, the acid test reveals that JKL Ltd.'s liquidity is favourable because it exceeds the recommended minimum of ratio 1:1 (textiles stocks are likely to be quite liquid), although the figures have deteriorated slightly.

Award 1–2 marks if the commentary is vague and/or incoherent. The answer might appear in an unexplained list-like format.

Award 3–4 marks if there is a detailed commentary on the liquidity position of JKL Ltd. There is appropriate use of business management terminology.

- (c) Considerations of what else might be needed to judge the liquidity position of JKL Ltd. include:
- JKL Ltd.'s cash holdings have increased by 300% (from \$50 000 to \$200 000); this might help to improve liquidity but there is a potentially large opportunity cost of holding too much cash.
 - JKL Ltd. will also want to investigate the cause of the 50% increase in its short-term liabilities (such as overdrafts and creditors) which have reduced its liquidity ratios.
 - Stocks have also increased, thereby reducing the value of the acid test in Year 2. Further information on the type of stock is needed, such as whether most of the stock is work-in-progress or finished.
 - It might also be useful to know the stock turnover, i.e. how fast JKL Ltd. sells its products. A high stock turnover rate might mean that the current ratio can be indicative of the firm's liquidity position.
 - The relationship with debtors and suppliers can also give some insight to the liquidity position of the firm. Debtors are more likely to pay on time and suppliers are more likely to grant credit if there is a trusting professional relationship.

Award 1–2 marks if only one reason is explained clearly or the answer lacks detail and/or depth. The answer might appear in an unexplained list-like format.

Award 3–4 marks if there is a detailed explanation of what other information would be needed to judge the liquidity position of JKL Ltd. Relevant examples are used in the context of the case study and there is effective use of business management terminology.

Question 3.5.4

- (a) Gross profit shows the difference between a firm's sales revenues and its cost of goods sold (COGS). Net profit, however, is calculated after deducting overheads (expenses) from the gross profit figure, i.e. it considers both direct and indirect costs in the calculation of profit. Gross profits will, therefore, always be greater than net profits.

Award 1–2 marks if the two terms are outlined although the answer lacks some detail/clarity.

Award 3 marks if both terms are clearly understood and a clear distinction is made. There is proficient use of business management terminology.

- (b) It is important for potential investors to consider non-financial factors when making investment decisions because not all choices are made on quantitative grounds. For example:
- There is no information regarding the type of industries in which D. McCleod & Co. and B. Cooper & Son operate; indeed the two firms might not even operate in the same industry!
 - Labour turnover and factors such as the level of staff motivation can affect the firm's long-term costs and profitability (both are important considerations for potential investors).
 - Past financial performance is not necessarily indicative of future performance so caution should be taken when basing investment decisions purely on quantitative factors.
 - Financial / quantitative analysis may not be reliable due to window dressing of accounts and historical data being used, i.e. the current situation for both firms is likely to have changed.
 - Consumer confidence levels will also affect investment decisions, irrespective of what financial ratios might reveal, e.g. a looming recession might be enough to put off investors. Investment decisions tend to be more reserved during a period of recession or when the level of consumer and business confidence is declining.
 - The reputation of the two firms is likely to have an influence on investors' decisions as corporate social responsibility and ethics are factors that increasingly affect the customer's perception (and hence sales and profitability) of a business.
 - Aims and objectives of the two firms are likely to be considered, e.g. D. McCleod & Co. might be expanding, which explains its declining acid test ratio.

Award 1–2 marks if the commentary is vague and/or incoherent. The answer might be presented as an unexplained list.

Award 3–4 marks if there is a detailed commentary on why it is important for potential investors to consider non-financial factors when making investment decisions. There is effective use of business management terminology.

- (c) *Note:* SL students are not expected to use the gearing ratio in this question.

Ratio	Firm	Commentary
GPM	McCleod & Co.	Gross profit has fallen by 20% (from a GPM of 50% to 40%).
	B. Cooper & Son	Gross profit has fallen by just 10% (from a GPM of 50% to 45%); hence B. Cooper & Son has performed better in terms of its ability to control COGS.
NPM	McCleod & Co.	NPM is stable at 20% but this means with a reduced GPM that overhead control is improving; overheads accounted for a 30% differential (comparing the GPM and NPM) but only 20% by the Year 3.
	B. Cooper & Son	NPM has improved by 5.2% (from a GPM of 19% to 20%) and is quite stable. B. Cooper & Son's ability to control overheads has also improved but D. McCleod & Co. performed better.

ROCE	McCleod & Co.	The ROCE has fallen by 6.7% but the rate is still quite attractive with a yield of 14%.
	B. Cooper & Son	The ROCE has improved by 25% so seems very attractive if such performance can be maintained. B. Cooper & Son's ROCE overtakes that of D. McCleod & Co. in the 3rd year and seems attractive with its 15% return.
Quick ratio	McCleod & Co.	The firm has a high acid test ratio in Years 1 and 2, but improves with the ratio falling to 1.5 (although we have no information about the type of industry that D. McCleod & Co. operates in).
	B. Cooper & Son	The firm's quick ratio has fluctuated and is close to the minimum recommended 1:1, so liquidity issues at B. Cooper & Son could be a concern for investors.

Award 1–3 marks if the answer lacks details/depth. A limited understanding of the demands of the question is shown.

Award 4–5 marks if there is an analysis of at least two of the given financial ratios.

Award 6–7 marks if there is an examination of at least three of the given financial ratios. There is good use of business management terminology.

Award 8–9 marks for a thorough examination of the financial ratios with a justified conclusion for which firm is the better investment, with evidence of critical thinking.

Unit 3.6 Efficiency ratio analysis [HL Only]

Question 3.6.1 Calculating efficiency ratios

(a)

	Year 2	Year 1
Stock turnover	$(350 \div 500) \times 365 = 255.5 \text{ days}$	$(250 \div 450) \times 365 = 202.7 \text{ days}$
	or	
	$500 \div 350 = 1.43 \text{ times}$	$450 \div 250 = 1.8 \text{ times}$
Debtor days	$(150 \div 1,000) \times 365 = 55 \text{ days}$	$(200 \div 850) \times 365 = 86 \text{ days}$
Creditor days	$(300 \div 500) \times 365 = 219 \text{ days}$	$(200 \div 450) \times 365 = 162 \text{ days}$

Award up to 2 marks for each ratio that is correctly calculated, with the working out shown in full.

(b) There are three efficiency ratios in this question and hence any development in these should help to improve the overall efficiency position of JKL Ltd. Some examples are given below:

- Stock turnover – Hold less stock, e.g. introduce a system of Just-in-time (JIT) or introduce lean production to the production process at JKL Ltd.
- Debtor days – Improved credit control, e.g. if credit control is too loose, then this could lead to liquidity problems despite the preferential credit terms to customers.

- Creditor days – Given the improved cash position of JKL Ltd., suppliers will probably query why the firm is taking so much longer to pay its debts. The ratio suggests that the credit period is rather generous especially as JKL Ltd. has sufficient working capital and liquidity to meet these debts. This could, therefore, dampen the relationship with its suppliers.

Award up to 2 marks for each factor considered to improve the firm's efficiency position of JKL Ltd.

(c) The term 'efficiency position' should be defined. The efficiency position of JKL Ltd. can be judged by assessing the firm's efficiency ratios, i.e. its stock turnover, debtor days and creditor days:

- Stock turnover – JKL Ltd.'s stock is taking longer to turn over (or turning over at a lower rate), i.e. there is less efficiency.
- Debtor days – JKL Ltd.'s debtors are, on average, paying much earlier (from 86 days to 55 days), suggesting that there is improved credit control.
- Creditor days – JKL Ltd. is taking significantly longer to pay its creditors (from 162 days to 219 days), which might dampen its relationship with suppliers in the long run.
- Overall then, it seems that the firm's liquidity position has probably deteriorated; although more information and data is needed to make any firm conclusions.

Award 1–3 marks if the answer lacks detail and is rather generalized. There is limited understanding of the demands of the question.

Award 4–6 marks if the answer shows some understanding of the efficiency position of JKL Ltd., with appropriate analysis of the ratios. The answer lacks depth of explanation in some areas, or does not consider all three measures of JKL Ltd.'s efficiency ratios.

Award 7–8 marks if there is a detailed answer that considers the efficiency position of JKL Ltd. by examining all three ratios. There is effective use of business management terminology throughout the answer and evidence of critical thinking.

Question 3.6.2 Calculating gearing ratios

(a) Debentures are a source of external long-term (loan) finance for which interest is paid to the debenture holder. Debenture holders do not usually have ownership or voting rights in the organization.

Award 1 mark if the description shows some understanding of debentures.

Award 2 marks if the description shows a clear understanding of debentures, with appropriate use of business management terminology.

(b) Gearing ratio for JKL Ltd.

Year 2	Year 1
$250\text{k} \div 1\,000\text{k}$	$250\text{k} \div 800\text{k}$
= 25%	= 31.25%

Award 1 mark for each correct answer, up to 2 marks.

Award 3 marks if both correct answers are given, along with the correct working out.

- (c) The gearing ratio is a long-term liquidity ratio that measures the percentage of a firm's capital employed that comes from long-term liabilities, such as debentures. JKL Ltd. has less than 50% gearing so this is considered to be relatively safe, albeit very limited information is given about the firm.

JKL Ltd. has lower gearing in Year 2, meaning that it is less vulnerable to any increases in interest rates, i.e. external borrowing through the use of debentures represents less risk. However, there is a need to benchmark this ratio with the industry norm before any strong conclusions can be made about JKL Ltd.'s liquidity position.

Award 1–2 marks if the commentary is vague and shows a limited understanding of the demands of the question. The answer might appear in an unexplained list-like format.

Award 3–4 marks if there are good explanations of what the figures suggest about the long-term liquidity position of JKL Ltd. There is good use of relevant business management terminology.

- (d) Answers should consider both the costs and benefits of high gearing. For example, having high gearing during times of rising interest rates is likely to be risky (even if the economy is doing well) as the higher loan repayments will hinder the firm's working capital. However, high gearing might be necessary for a firm that lacks internal funds to finance growth and evolution.

In the case of JKL Ltd. the fall in its gearing ratio (from 31.25% to 25%) is not necessarily a good thing, e.g. could JKL Ltd. afford to have higher gearing to finance expansion, especially as it has both higher net profit and retained profit in Year 2.

Award 1–2 marks if the answer is vague with some, albeit limited, understanding shown.

Award up to 3–4 marks for a good explanation of whether high gearing can be beneficial, although the answer lacks depth in some areas and/or is presented as a one-sided argument.

Award 4–6 marks for a two-sided argument that considers both costs and benefits of high gearing for firms such as JKL Ltd. There is appropriate use of relevant business management terminology.

Question 3.6.3 Ocean Deco Limited

- (a) External finance can be defined as sources of funding that come from outside the business. In the case of Ocean Deco Ltd. this might include the \$80 000 mortgage from the bank.

Award 1 mark if there is some understanding of external finance shown, although the answer might lack clarity.

Award 2 marks if external finance is clearly defined, with the use of a relevant example.

- (b)
- (i) Gross profit margin (GPM):

- Gross profit = (532 – 248)
- $GPM = 284 / 532$
- $GPM = 53.38\%$

Award 1 mark if the GPM is correct but there is no working out shown or the correct procedure is used but with an incorrect answer.

Award 2 marks if the correct GPM is given with accurate working out shown.



(ii) Return on capital employed (ROCE):

- Net profit = Gross profit *less* expenses
- Net profit = 284 – 132 = 152
- Capital employed = 88 + 80 = 168
- ROCE = 152 / 168
- ROCE = **90.48%**

Award 1 mark if the ROCE is correct but there is no working out shown or the correct procedure is used but with an incorrect answer.

Award 2 marks if the correct ROCE is given with accurate working out shown.

(iii) Gearing ratio:

- Gearing ratio = loan capital / capital employed
- Long-term liabilities (i.e. mortgage) = 80
- Gearing = 80 / (88 + 80)
- Gearing = **47.62%**

Award 1 mark if the gearing ratio is correct but there is no working out shown or the correct procedure is used but with an incorrect answer.

Award 2 marks if the correct gearing ratio is given with accurate working out shown.

(c) The ratios suggest several reasons why Shanghai Commercial Ltd. might be interested in taking over Ocean Deco Limited, including:

A gross profit margin of over 53% means that for every \$100 of sales revenue, around \$53 turns out to be gross profit (or costs of goods sold accounted for \$47 for every \$100 of sales). The higher the GPM figure the better the financial performance of the organization, so perhaps the 53% GPM is sufficiently high to attract the attention of Shanghai Commercial Ltd.

ROCE ratio shows the financial performance (based on net profits) from the amount of capital invested in the firm. Hence, the ROCE is an indicator of the profitability of the organization. The higher the ROCE figure, the better it is for the business. In the case of Ocean Deco Limited, an ROCE figure of over 90% suggests that for every \$100 invested in the company, over \$90 profit is generated. Clearly then, this is attractive to buyers such as Shanghai Commercial Ltd.

However, the gearing ratio is perhaps rather high at almost 48%. This ratio shows that for every \$100 of capital employed, the organization has interest-bearing loan capital of \$48. Whilst Shanghai Commercial Ltd. might have some concerns with this, it might simply be due to the expansion plans at Ocean Deco Limited.

Award 1–3 marks if the answer shows some understanding of the financial ratios and their impact on the decision of Shanghai Commercial Ltd. The answer might be presented in a list-like format with little, if any, application.

Award 4–5 marks if the answer shows a thorough understanding of the financial ratios and their impact on the decision of London Commercial Ltd. There is effective use of business management terminology and appropriate application shown.

(d) Quantitative (numerical) factors that might need to be considered include:

- The current ratio (Current assets ÷ Current liabilities) is $85 / 62 = 1.37 : 1$. This suggests the Ocean Deco Ltd. is quite solvent, although the ratio is perhaps a little too close to the (absolute) minimum of 1:1. An insolvent company is more likely to sell the business to a potential buyer.
- The firm's gearing ratio is high at almost 48%. If Ocean Deco Ltd. expects to face long-term liquidity problems (affecting its ability to repay the \$80,000 mortgage or perhaps due to rising interest rates in the economy), then maybe the takeover bid becomes more attractive to the owners.
- The ROCE is an impressive 90.48%, suggesting that Morten Wincent is more likely to want to keep the business. As a result, the hostile takeover bid from Shanghai Commercial Ltd. is likely to be rejected by the owners.
- Similarly, a GPM ratio of over 53% might suggest to Morten Wincent that Ocean Deco Ltd. has good profitability and therefore he might choose not to sell or even hold out for a more favourable offer.

Quantitative (non-numerical) factors that might need to be considered include:

- The potential conflict between Morten Wincent and his son. Would it be better for his son to back down and allow his father to make the decision or should Morten listen to his son and avoid confrontation?
- Morten's son might be correct in believing that Ocean Deco Ltd. can no longer compete with the larger rivals; in which case it may be a good time to sell to Shanghai Commercial Ltd. whilst a 'lucrative' deal is being offered.
- The emotional value of keeping the family business might be regarded as far more important (to Morten Wincent at least) than any possible financial gain from selling the company that he helped to set up.

Award 1–3 marks for a vague answer that shows a limited understanding of the demands of the question. The answer is probably unbalanced and may be presented as an unexplained list.

Award 4–5 marks for an answer that considers both numerical and non-numerical factors in some detail. The answer might lack application at the lower end. Any recommendation made may lack justification.

Award 6–7 marks for an answer that considers both numerical and non-numerical factors in detail. A justified recommendation has been made to the owners of Ocean Deco Ltd. which addresses whether they should accept or reject the takeover bid.

Question 3.6.4 ACS Playframes Limited

- (a) Fixed assets are resources owned by a business that are not intended for resale within the next twelve months but used repeatedly in the production process, e.g. delivery vehicles, buildings, land and registered trademarks. They are relatively illiquid assets.

Award 1 mark if the answer shows some understanding of fixed assets, although the answer might lack clarity or sufficient depth.

Award 2 marks if fixed assets is clearly defined, with the use of an example related to the case study likely to be used.



(b) Profit and loss account for ACSPL, for year ended 31 March:

	\$
Sales revenue	3 500 000
less Cost of sales	900 000
Gross profit	2 600 000
less Expenses	<u>600 000</u>
Net profit	2 000 000

Award 1–2 marks if only limited understanding is shown. The P&L account might be presented in an incoherent format.

Award 3–4 marks if the construction of the P&L account is coherent although there are two or more errors. An appropriate title might be missing. Apply the own figure rule (error carried forward) where appropriate. At the top end of the band, one error is permissible.

Award 5 marks for the accurate construction of the profit and loss account, with an appropriate title used.

(c)

(i) Current ratio = Current assets ÷ Current liabilities

So, $600 \div 550 = 1.09 : 1$

Award 1 mark if the current ratio is correct but there is no working out shown or if the correct procedure is used but with an incorrect answer.

Award 2 marks if the correct current ratio is given with accurate working out shown.

(ii) Gearing ratio = Long-term liabilities ÷ Capital employed

Capital employed = Long-term liabilities + Retained profit + Shareholders' funds

So, $\$3.2\text{m} \div (\$3.2\text{m} + \$0.85\text{m} + \$3.5\text{m}) = 42.38\%$

(iii) Working capital issues (problems) occur when a business has insufficient net current assets (working capital) in the short term, i.e. within twelve months of the balance sheet date. Longer term liquidity issues occur when a firm experiences high gearing during times of escalating interest rates (since the commitment to long-term liabilities drains the firm's financial resources).

Hence, the current ratio could be used to assess the short-term liquidity position of ACSPL. In this case, ACSPL's current ratio is 1.09 :1, i.e. for every \$1 of current liabilities, ACSPL only has \$1.09 worth of liquid assets. In fact, fixed assets account for over 99% of net assets employed, i.e. ACSPL lacks liquidity.

Students might also choose to use the gearing ratio in this question. In this case, ACSPL's gearing is quite high at 42.38%. The necessity to repay long-term creditors with interest means that ACSPL's level of gearing could make the company quite vulnerable since the economy is experiencing higher interest rates.

Award 1–2 marks for a limited response with some understanding shown. There are omissions in the explanation and/or the explanation lacks depth.

Award 3–4 marks for a good explanation of why ACSPL faces working capital and liquidity problems, using the current ratio. Appropriate reference is made to the stimulus material and there is good use of business management terminology.

(d) Possible financial strategies might include:

- Obtaining an overdraft to deal with the lack of working capital – this might not be too difficult as ACSPL has been experiencing growth for several years. However, interest rates are on an upwards trend.
- As interest rates are increasing, cash outflow to finance ACSPL's long-term liabilities (which represent more than 42% of the company's sources of finance) will increase, thereby adding further pressure to the company's liquidity position.
- Tighter credit control – ACSPL might limit trade credit to its customers (hotels, schools and local government) or reduce the credit period. This would enable the company to receive its cash sooner (thereby improving its working capital and liquidity position). It is unlikely that ACSPL could offer incentives for customers to pay by cash, given the high price of play frames.
- Examine the poor current ratio of 1.09:1, i.e. how might current assets (cash, debtors and stocks) be improved whilst controlling cash outflows on current liabilities (tax, overdrafts, dividends and creditors)?
- Investigate whether the \$600 000 worth of expenses could be reduced in the future. This would help to improve net cash flows for ACSPL. Similarly, it might look for different suppliers of its raw materials and components to reduce direct costs of production, thereby also improving profit margins.
- ACSPL could be experiencing problems with overtrading, i.e. expanding too quickly without the necessary financial and human resources to do so (the firm has fixed assets worth \$7.5m but only employs 5 full-time staff). Hence, one strategy would be to limit its rate of expansion.

Award 1–2 marks for a generalized answer that lacks details of the options available to deal with liquidity problems.

Award 3–4 marks for a good examination of several options available to deal with liquidity problems that ACSPL faces. Application is missing or is used superficially.

Award 5–6 marks for a thorough examination of the options available to deal with the working capital and liquidity problems that ACSPL faces. Appropriate business management terminology and examples are used, in the context of ACSPL.

Unit 3.7 Cash flow

Question 3.7.1 McDonald's

(a) Possible reasons why McDonald's experienced an increase in sales revenues but a decline in its net profits could include:

- Due to its revamped menu, McDonald's was able to entice more customers thereby helping to boost its sales by 6%.
- However, sales revenue is not the same as profit. The costs of product research and development for its new menu, for example, would contribute to higher expenses and hence lower net profits.
- It is likely that there is a significant time lag between investment expenditure (R&D and marketing costs for its revamped menu) and receiving sufficient sales revenue to recoup these costs.



- McDonald's expansion plans, such as opening its first store in Vietnam, would help to boost sales revenues but increase operations costs. Again, this contributes to declining net profits at least in the short term.
- Hence, it is probable that overall net profits declined despite sales revenue being higher.

Award 1 mark if the answer lacks depth and substance. There is little, if any, reference to the stimulus material in the case study.

Award 2–3 marks if there is some understanding of how it is possible for McDonald's to report an increase in sales revenue but a fall in net profits, although the explanation lacks some detail.

Award 4–5 marks if there is a clear understanding of how it is possible for McDonald's to report an increase in sales revenue but a fall in net profits, written in the context of McDonald's. There is appropriate use of relevant business management terminology.

- (b) Credit cards allow customers to 'buy now and pay later' through a third party, i.e. a financial lender such as a bank or credit company. The finance company pays the retailer (and charges the retailer a small fee for the service) and charges the customer at a later date.

Since credit improves flexibility and convenience (customers do not need to carry so much cash with them) and allows customers to buy now but to postpone payment, it can attract a large number of customers to businesses, including McDonald's. Hence, sales revenues may increase as customers have a greater choice of payment systems.

However, retailers and restaurants such as McDonald's will not receive their payment instantaneously, i.e. there is a (relatively short) delay in payment from the credit card company. This therefore extends the working capital cycle of the business that offers credit to its customers. In addition, the amount received from the finance company will be slightly lower because a fee is charged by the creditor.

Award 1 mark if the answer lacks depth and substance. There is little, if any, reference to the working capital cycle of McDonald's.

Award 2–3 marks if there is some understanding of the working capital cycle being affected by the use of credit. At the top end, there is some reference to McDonald's.

Award 4–5 marks if there is a clear understanding of how the introduction of credit card payments offers greater flexibility and convenience for McDonald's customers. There is a good explanation of how the working capital cycle is affected by consumer credit.

Question 3.7.2 Le Royal Méri­dien Hotels

- (a) Working capital (or net current assets) refers to the liquidity available to a business, i.e. the existing short-term assets of a firm to cover its short-term debts. Working capital is calculated as the sum of current assets (cash, stocks and debtors) minus the sum of current liabilities (overdrafts, tax, dividends and creditors).



Award 1 mark for a vague understanding of working capital.

Award 2 marks if working capital is clearly understood with the appropriate use of business management terminology and/or examples.

- (b) Improved cash flow management is needed during a long working capital cycle, such as when Le Royal Meridien is building new hotels because:
- There is a prolonged delay between payments for production costs (to construct the new hotels) and the proceeds from customers paying to stay at the new hotels. Poor cash flow management could therefore cause the construction work to halt due to a lack of working capital.
 - Current liabilities (such as overdrafts, creditors and tax demands) will further drain cash flow during the construction period. Again, it is vital to manage cash flow in order to keep the Le Royal Meridien afloat.
 - Poor cash flow management can make the organization go further into debt as it seeks to borrow more finance to fund the construction of the new hotels. This may cause gearing problems for Le Royal Meridien.

Award *1–2 marks* if the answer lacks some detail and/or substance. There may be little, if any, application to Le Royal Meridien.

Award *3–4 marks* if there are good explanations of why Le Royal Meridien needs better cash flow management, with reference to a long working capital cycle during the construction of its new hotels. There is appropriate use of business management terminology with relevant application.

Question 3.7.3 Menelao Stationers

- (a) Cash flow forecast for Menelao Stationers

	Aug (\$)	Sep (\$)	Oct (\$)	Nov (\$)
Cash inflow				
Cash sales	2 000	5 500	3 200	3 000
Cash outflow				
Stock purchases	1 000	2 750	1 600	1 500
Rent	0	2 000	0	2 000
Utilities	500	500	500	500
Other costs	1 800	1 100	1 100	1 100
Total outflow	3 300	6 350	3 200	5 100
Net cash flow	-1 300	-850	0	-2 100
Opening cash balance	6 500	5 200	4 350	4 350
Closing cash balance	5 200	4 350	4 350	2 250

Award *1 mark* for an acceptable format used to present the cash flow forecast. Award up to *5 marks* for the construction of the CFF, deducting *1 mark* for each error (apply the own figure rule (error carried forward) where necessary).

- (b) The answer should show an understanding (or definition) of ‘liquidity position’, i.e. the extent to which Menelao Stationers can meet its short-term debts. The firm seems to be suffering from worsening liquidity as seen by the closing balance figures. The net cash flow for the first four months of trading is either zero or negative, suggesting its liquidity position is somewhat of a concern for Menelao Stationers. Without the initial cash inflow of \$6500 from Denise Menelao to start the business, there would be insufficient working capital.

Award 1–2 marks if the commentary is vague and/or incoherent. The answer might appear in a list-like form, without little, if any, explanation.

Award 3–4 marks if the commentary is sound, with a clear understanding of the liquidity position of Menelao Stationers. There is good use of examples and reference to the case material.



Question 3.7.4 Bereti’s Boutique

- (a) Cash flow forecast for Bereti’s Boutique (Aug–Nov):

	Aug (\$)	Sep (\$)	Oct (\$)	Nov (\$)
Opening balance	10 000	5 850	3 040	890
Cash inflows	4 000	4 800	6 000	8 100
Total cash inflows	14 000	4 800	6 000	8 100
Cash outflows				
Variable Costs	2 000	2 160	2 700	3 645
Advertising	1 600	900	900	900
Staffing (5 × \$800)	4 000	4 000	4 000	4 000
Others	550	550	550	550
Total cash outflows	8 150	7 610	8 150	9 095
Closing bank balance	5 850	3 040	890	-105

Deduct 1 mark for each error, but apply the own figure rule (error carried forward) as appropriate.

- (b) The cash flow forecast suggests several issues for Nicole Bereti:
- The business is expected to have a negative closing balance in November. This is an unfavourable position to be in, so short-term external finance is likely to be needed.
 - The net cash flows between Sept and Oct are negative, i.e. the liquidity position is rather unfavourable. The closing balance in August is only positive because of the initial \$10 000 from Nicole’s personal bank account. However, it can be seen that net cash flow does improve during this time.



	Aug (\$)	Sep (\$)	Oct (\$)	Nov (\$)
Net cash flow	5850	(2810)	(2150)	(995)

- Cash inflows from sales have continually increased by 102.5% (from \$4000 to \$8100) whilst payments have only increased by 11.6% (from \$8150 to \$9095), i.e. the liquidity position is improving over time.
- Given that Bereti's Boutique is a new establishment, the cash flow forecast suggests that the firm might still succeed since negative cash flow only occurs temporarily.
- However, it is difficult to conclude whether Bereti's Boutique will have a positive net cash flow and a positive closing balance after December (the most profitable time of year for perfume retailers).
- Overall, the cash flow position faced by Bereti's Boutique may not be too much of a concern, especially with its rising sales revenue, so long as it can secure finance to overcome the short-term liquidity problem in November (a \$105 deficit rather insignificant).

Award *1 mark* for a vague answer that lacks substance or is simply descriptive.

Award *2–3 marks* if there is an attempt at examining the cash flow position of Bereti's Boutique, but the answer may lack detail or application of the stimulus material.

Award *4–5 marks* if there is a detailed examination of Bereti's Boutique's cash flow position. Appropriate business management terminology has been used with reference to the case study.

Question 3.7.5 Ducie's Dance Studios Ltd.

- (a) Profitable firms such as Ducie's Dance Studios Ltd. can experience cash flow problems for a number of reasons, such as:
- Overtrading
 - Long working capital cycle
 - Poor credit control
 - Long credit periods

Award *1 mark* for a vague outline of why profitable firms might experience cash flow problems, with some understanding shown.

Award *2 marks* for a clear outline of why profitable firms might experience cash flow problems. The answer makes appropriate use of business management terminology.

(b) Cash flow forecast for Ducie's Dance Studios Ltd. for the period April to June:

	April (\$)	May (\$)	June (\$)
Cash sales	5 000	4 500	5 500
Credit sales	6 000	5 000	4 500
Cash inflows	11 000	9 500	10 000
Direct costs	5 500	4 950	6 050
Indirect costs	5 100	5 100	5 100
Cash Outflows	10 600	10 050	11 150
Net cash flow	400	-550	-1 150
Opening balance	1 200	1 600	1 050
Closing balance	1 600	1 050	-100

Deduct 1 mark for each error, but apply the own figure rule (error carried forward) as appropriate.

(c) The options available to Marj Ducie in dealing with her liquidity problems include:

- Applying for a preapproved overdraft for June (and perhaps May when net cash flow is negative) in case actual cash outflows are higher than those forecast, in which case the closing balance would be negative; but this option would incur high interest charges.
- Offering incentives to customers to pay earlier (or by cash) because currently half of the sales are paid for on credit. Whilst this might improve liquidity, offering such incentives might reduce the profits of the business.
- Better credit control by offering less credit (as 50% of customers pay by credit) or a shorter credit period (currently one month's credit); but this might lead to fewer customers thereby reducing the attractiveness the business.
- Negotiate the option to pay indirect costs in instalments in order to ease the firm's cash flow.
- Reviewing marketing planning to help Ducie's Dance Studios Ltd. to better meet the needs and wants of its customers, thereby helping to improve the firm's cash inflows.
- Reviewing the firm's pricing strategy in order to raise sales revenues.

Award 1–2 marks if the answer is generalized and lacks detail. The answer might appear in a list-like format.

Award 3–4 marks if there is an explanation of the options available to Ducie's Dance Studios Ltd. although the answer might lack application or substance.

Award 5–6 marks if there is an examination of the options available to Ducie's Dance Studios Ltd. Application is clearly shown.

Award 7–8 marks if there is a thorough examination of the ways in which Ducie's Dance Studios Ltd. could deal with its liquidity problems, with an evaluation of the effectiveness of these options to the firm. Appropriate business management terminology is used in the context of Ducie's Dance Studios Ltd.

Unit 3.8 Investment appraisal

Question 3.2.1 Chelsea Football Club

(a) Reasons could include:

- The potential for Chelsea Football Club (CFC) to return healthier profits in the future
- CFC may have been undervalued at the time of purchase
- Abramovich could simply be a big fan of the club, i.e. personal interest.

Award 1 mark for each appropriately identified reason that might have influenced Roman Abramovich's decision to buy Chelsea Football Club.

(b) Possible reasons include:

- Abramovich had spent hundreds of millions of pounds of his own money on the club yet there is no guarantee that CFC would become profitable
- CFC was suffering from 'huge financial losses' so Abramovich took a risk by investing in such a business
- The club was not estimated to break-even until around 7 years after Abramovich took over the business.

Award 1–2 marks if there is a generalized answer, which might lack depth and/or substance or if no application shown.

Award 3–4 marks for a detailed explanation of why investment can be risky. Appropriate business management terminology is used, with application made to the case study.

(c) The PBP would inform Roman Abramovich how long it would take (as an estimate) before his spending on the club would generate enough revenue to pay back the value of the investment. A shorter payback period would tend to reduce the risk of such an investment project. Ultimately, the PBP acts as a decision-making tool for risk assessment when making investment decisions.

Award 1–2 marks if the answer lacks detail and/or substance. There is no application made to CFC.

Award 3–4 marks if there is a thorough commentary on the usefulness of the payback period as an investment decision-making tool for CFC. Appropriate examples are used to substantiate the answer.

Question 3.8.2 Payback period and rate of return

(a) \$140 000

Award 1 mark for correctly identifying the cost of the investment projects.

(b) Project Atlanta has the shorter payback period, i.e. it reaches breaks even quicker (but only by 4 months).

	Atlanta	Boston
Cumulative cash flow (after 2 years)	\$140 000	\$120 000
Payback period	2 years	2 years and 4 months

Award up to 2 marks for correctly calculating the payback periods for both projects.

Award up to 2 marks for the commentary, applying the own figure rule (error carried forward) where applicable.

- (c) Project Atlanta has an ARR of 4.76% which is only marginally higher than the savings interest rate at 4.75%, i.e. the investment risk might not be worthwhile. By contrast, Project Boston has a much better ARR of 9.52% (more than double the savings interest rate), even though both projects cost the same amount of money.

	Atlanta	Boston
ARR	$[(\$160\text{ k} - \$140\text{ k}) \div 3\text{ years}] / \140 k = 4.76%	$[(\$180\text{ k} - \$140\text{ k}) \div 3\text{ years}] / \140 k = 9.52%

Award up to 2 marks for correctly calculating the average rate of return for both projects, with the working out shown.

Award up to 2 marks for the commentary, with consideration of the benchmarked savings interest rate.

- (d)

	Atlanta	Boston
Payback	2 years	2 years and 4 months
ARR	4.76%	9.52%

This depends on whether the firm's priority was a quick return on the investment (in which case Project Atlanta would be picked) or if profit was more of a priority. Although there is a much better average rate of return for Project Boston, a large amount of the money is received at a later stage in the project's timeline, i.e. it would be worth less based on today's value. Both projects have an expected annual return that is greater than the base interest rate, albeit very marginally for Project Atlanta. Nevertheless, Project Boston yields a significantly higher return than Project Atlanta, making it relatively more attractive despite its slightly longer payback period.

Award 1–2 marks for a generalized answer that lacks details of which investment project is most attractive, given the available information.

Award 3–4 marks for a good examination of several factors, with some understanding of which investment project is most attractive. The answer might lack substance in some areas or the application of the stimulus material.

Award 5–6 marks for a thorough examination of several factors, with a detailed understanding of which investment project is most attractive based on the stimulus material. There is effective use of relevant business management terminology.

Question 3.8.3 Calculating net present value

- (a)

Year	Investment Colorado			Investment Detroit		
	Net Cash Flow (\$)	Discount Factor	Present Value (\$)	Net Cash Flow (\$)	Discount Factor	Present Value (\$)
0	(300 000)	1.00	(300 000)	300 000	1.00	(300 000)
1	50 000	0.9434	47 170	100 000	0.9434	94 340
2	100 000	0.8900	89 000	200 000	0.8900	178 000
3	200 000	0.8396	167 920	200 000	0.8396	167 920
4	200 000	0.7921	158 420	50 000	0.7921	39 605
NPV			162 510			179 865

Deduct *1 mark* for each error made, applying the own figure rule (error carried forward) where appropriate. For full marks, there should be a brief explanation of why Project Detroit is the relatively more attractive investment.

(b) Other information that could be considered include the following:

- Based on these figures, Project Detroit should be pursued as it has the higher NPV (by a value of \$17 355 or around 10.67% higher than Project Colorado).
- Although both projects yield the same absolute amount of net cash flow (each totalling \$550 000), Project Colorado does not see most of its returns until the final two years, i.e. when the money has lost much of its current value.
- The payback period for Project Detroit is shorter (just 2 years, compared to 2 years and 9 months for Project Colorado).
- The ARR is the same for both projects (because DCF are not considered in the calculation of the ARR).
- Other quantitative factors may also need to be considered, e.g. management preferences (gut feelings and intuition, rather than just quantitative analysis).

Award *1–2 marks* if the answer lacks detail and/or substance. The answer might be presented as a list of reasons, with little if any explanations.

Award *3–4 marks* if there is a good commentary of further information that should be considered before deciding which investment project to pursue, although there explanations lack depth/clarity in areas. Application of the stimulus material is shown.

Award *5 marks* for a thorough commentary of further information that should be considered before deciding which investment project to pursue, with appropriate explanations used to substantiate the answer. There is effective use of business management terminology and application of the stimulus material.

Question 3.8.4 Which project?

(a) Net cash flow is the difference between a firm's cash inflows and its cash outflows, per time period, as detailed on the firm's cash flow statement or cash flow forecast.

Award *1 mark* for a vague understanding of net cash flow or if only the formula is given.

Award *2 marks* if net cash flow is clearly understood with the appropriate use of business management terminology and/or examples.

(b) The question requires candidates to carry out a full quantitative investment appraisal:

	Project England	Project France
Payback period	2 years, 7 months	2 years
ARR	22.5%	20.83%
NPV	\$21 141	\$19 990

- Based on the financial data, Project France has a shorter payback (by just over 6 months), so if liquidity is an issue, then the firm should opt for this venture.
- However, the ARR is higher if the firm opts for Project England; although both are significantly higher than any return from savings at a bank.
- The NPV is higher for Project England (by \$1 241 or 6.23%).
- Overall, on financial grounds, Project England seems the slightly better option if the business is prepared to wait a further 6 months or so before it achieves payback.

- In addition to quantitative investment appraisal methods, qualitative factors could also be considered. For example, there could be some thought about organizational objectives and the competing views of different stakeholder groups.

Award *1–2 marks* if the answer lacks coherence and shows limited understanding of investment appraisal methods.

Award *3–4 marks* if there are errors in the quantitative investment appraisal. The analysis, if present, shows some understanding of the figures.

Award *5–7 marks* if a full quantitative investment appraisal has been conducted, with some analysis of the findings. There may be one or two errors in the calculations. There is little, if any, consideration of qualitative factors that affect investment decisions.

Award *8–10 marks* if a full quantitative investment appraisal is carried out with all necessary working shown. There is a thorough examination of the findings. Qualitative factors have also been considered. Evaluation has been attempted and there is evidence of critical thinking.

Question 3.8.5 Karoo Garments Limited

(a)

(i) Payback period (PBP)

Year	€'000	Cumulative cash flow
0	(230)	(230)
1	140	(90)
2	180	90
3	150	240
4	100	340

In year 2: $\text{€}90\,000 / (\text{€}180\,000/12) = 6 \text{ months}$.

Payback period is **1 year and 6 months**

Award *1 mark* if the PBP is correct but there is no working out shown or the correct procedure is used but with an incorrect answer.

Award *2 marks* if the correct PBP is correctly calculated, with the working out shown.

(ii) Average rate of return (ARR):

Net cash flow = €570 000

Principal = €230 000

Total profit = €340 000

Annual profit = $\text{€}340\,000 \div 4 \text{ years} = \text{€}85\,000 \text{ p.a.}$

ARR = $(\text{€}85\,000 \div \text{€}230\,000) \times 100$

= **36.96%**

Award *1 mark* if the ARR is correct but there is no working out shown, or if the correct method is used but with an incorrect answer.

Award *2–3 marks* if the correct ARR is given with the working out shown. For full marks, all steps in the working out should be shown.

(iii) Net Present Value (NPV):

Year	NCF (€'000)	Present Value(€)
0	(230)	(230 000)
1	140	129 626
2	180	154 314
3	150	119 070
4	100	<u>73 500</u>
		476 510
4	10	<u>7 350</u> (scrap value)
		483 860
		<u>230 000</u> (principal)
	NPV =	253 860

Award 1 mark if the NPV is correctly stated without any working out shown, or if minimal understanding is shown in the answer.

Award 2–3 marks if there is some understanding shown in the calculation of the NPV. Allow up to two errors at the lower end and up to one error for 3 marks. Award up to 3 marks if the scrap value is ignored, but the calculations are otherwise accurate.

Award 4 marks for accurately calculating the NPV, with full working out shown.

(b) Relevant financial factors could include:

- There is a relatively short payback period of 1 and a half years (especially as the project lasts for 4 years).
- The ARR of almost 37% is significantly higher than the base interest rate (at 8%).
- The NPV of €253 860 suggests that the 4-year project is profitable, i.e. it is a good investment.
- The predicted scrap value of machinery helps towards its replacement cost.
- However, Karoo Garments Limited should also consider the reliability of the forecasted net cash flows.

Non-financial factors that could be considered in the decision include:

- Continuous changes in the fashion industry in Europe mean that the versatility and flexibility of the machinery are important considerations.
- Staff retention is already a problem, so buying new machinery might either cause technological unemployment or improve labour productivity as workers operate with better machinery.
- Possible changes in the state of the economy and hence economic activity (the fashion industry is very reliant on a healthy economy).
- Consumer confidence levels, which can directly affect the demand for luxury clothing items.
- Changes in interest rates, which will change the value of quantitative investment appraisals, such as net present values.
- The opportunity cost of the €230 000 used for the investment, i.e. what else Karoo Garments Limited could have spent the money on instead.

Award 1–2 marks if the answer is vague, generalized or lacks substance.

Award 3–4 marks if the answer displays some understanding of relevant factors that link to improvements in productivity, although the factors may not be explicitly distinguished as numerical and non-numerical. There is limited, if any, application of the stimulus material.

Award 5–6 *marks* if there is consideration of relevant numerical and non-numerical factors in relation to Karoo Garments Limited's investment decision. Appropriate business management terminology and examples are used.

Award 7–8 *marks* if there is a balanced discussion of relevant numerical and non-numerical factors in relation to whether Karoo Garments Limited should invest in the new machinery to improve its productivity. Appropriate business management terminology and examples are used. There is evidence of critical thinking and evaluation.

Unit 3.9 Budgeting [HL Only]

Question 3.9.1 Budgeting for a holiday

- (a) Income = $\$150 \times 10 =$ \$1 500
 Outgoings = $\$110 \times 10 =$ \$1 100
 Net income = \$400

Based on the projections, Kay Edwards will have a shortfall of \$100 from being able to pay for her holiday.

Award up to 2 *marks* for calculating the net income (difference between Kay's income and outgoings), with working out shown. Award a further 1 *mark* for correctly answering the question, i.e. that Kay Edwards cannot afford her planned holiday.

- (b) Budgeting is a forward-looking decision-making plan that might help Kay because it allows her to assess whether she is achieving her objectives (i.e. a planned holiday in Shanghai). She can then take appropriate actions in order to resolve any expected financial problems (i.e. the unfavourable variance) before they arise. Examples of such corrective measures include:
- Reducing her outgoings – especially those that are non-essential or 'quite flexible'
 - Raising her income – perhaps by working overtime at weekends and/or evenings if possible.

Award 1–2 *marks* if the explanation is rather vague and lacks detail and/or substance. There may be little, if any, application.

Award 3–4 *marks* if there is a good explanation of how budgeting can help Kay Edwards in her financial planning for a holiday. Appropriate business management terminology is used and there is relevant application to the case study.

Question 3.9.2 Tsingtao Brewery Company

- (a) Budgeting is the cyclical (ongoing) process of planning, setting, controlling, monitoring and reviewing the financial plan of expected revenues and expenditures for an organization (or a department within an organization), for a given period of time.

Award 1 *mark* for a vague understanding of budgeting.

Award 2 *marks* if budgeting is clearly defined, with appropriate use of business management terminology.

- (b) Being China's second largest brewery, Tsingtao will need effective budgeting in order to run its global operations efficiently. Budgeting as a management tool is important to Tsingtao for several reasons, including:

- Budgeting can be used to motivate Tsingtao managers and other budget holders, to encourage responsibility and accountability and to aid financial control.
- It helps to control business costs in order to prevent liquidity problems.
- It has a central role in strategic planning, e.g. setting aside a sufficient budget to sponsor major sporting events such as the Beijing Olympic Games or the British Superbike Championship.
- Budgeting requires Tsingtao to plan for the future as it tries to enhance its corporate brand awareness and brand development.
- It helps to ensure that Tsingtao managers plan ahead and to anticipate any financial problems before they arise. They are required to anticipate the costs and revenues of different business activities and hence to agree on competing priorities and targets.
- Ultimately, effective budgeting avoids inefficient expenditure and improves the long-term competitiveness of Tsingtao.

Award 1–2 marks if the answer is generalized and/or lacks substance.

Award 3–4 marks if there is some examination of the importance of budgeting although the answer might lack detail and/or application to Tsingtao Brewery Company.

Award 5–6 marks if there is a thorough examination of the importance of budgeting to Tsingtao Brewery Company. Appropriate terminology has been used with sound application to the case study.

Question 3.9.3 Cathay Pacific Airways

- (a) A strategic alliance is a form of external growth which involves two or more firms coming together to share the costs, risks and benefits of a business venture. The affiliated businesses in the strategic alliance remain independent organizations, unlike in a joint venture.

Award 1 mark for a vague understanding of strategic alliance.

Award 2 marks if strategic alliance is clearly defined, with appropriate use of business management terminology.

- (b) Businesses such as Cathay Pacific use cost and profit centres for several reasons, including to:
- Allow Cathay Pacific to identify the divisions that generate the most (and least) revenue in order to identify areas of financial weakness. In large firms, it is not always clear whether a certain area of the business (e.g. cargo, in-flight entertainment and the Marco Polo Club) is making a loss, especially if the organization as a whole is profitable.
 - Delegate power to departmental managers in charge of cost and profit centres. This can be a way to motivate these people, develop important management skills and speed up decision-making in the organization.
 - Make managers more accountable for their centre's (department's) operational costs and revenues and to have better cost control.
 - Use the performance of cost and profit centres as a form of rewarding departmental managers and their teams who operate within their budgets or achieve favourable variances in their budgets.
 - Improve financial accountability and efficiency, which ultimately leads to improved cost control and therefore higher profits for Cathay Pacific.

Award up to 2 marks for each reason explained in the context of Cathay Pacific, up to the maximum of 4 marks.

(c) Difficulties likely to be involved in allocating Cathay Pacific's overheads include:

- The subjectivity in allocating overhead costs such as rent, interest, insurance and administrative costs across the airline's various cost and profit centres.
- The performance of a cost or profit centre can be changed by external factors beyond its control, such as higher food prices for the catering centre which could not directly affect other centres. This therefore bears no resemblance to the productivity and efficiency of the different departments.
- Such an approach can promote unnecessary internal competition to cut costs and/or to raise revenues, thereby creating unwanted tension and conflict between the various divisions of the airline.
- Allocating a greater proportion of overhead costs to a particular division will reduce its profits, although this does not necessarily represent its underlying trading position.

A full commentary on any two difficulties for Cathay Pacific, with effective use of business management terminology, would suffice for full marks.

Question 3.9.4 Laptops R Us

(a)

Variable	Budget	Actual	Variance
Sales of laptop A (units)	250	180	70 (a)
Sales of laptop B (units)	250	260	10 (F)
Production costs (\$'000)	120	150	30 (a)
Output per worker (units)	20	22	2 (F)
Labour costs (\$'000)	100	115	15 (a)

Award 1 mark for each correct answer, up to a maximum of 5 marks. Do not award a mark if the correct numerical value is given without the correct variance (favourable or adverse).

(b) Favourable variances are those that lead to higher than expected profits, i.e. actual revenues are higher than budgeted or actual costs are lower than budgeted costs. By contrast, adverse variances reduce profits for a business.

For example, whilst mathematically $\$115\,000 - \$100\,000 = +\$15\,000$ (labour costs at Laptops R Us), this is unfavourable to the business as its actual labour costs are higher than planned.

Hence, a positive difference in the actual outcome and the budgeted number does not mean that it is necessarily financially beneficial to the business. Instead, the correct term to use in this case is an unfavourable variance.

Award 1–2 marks if there is some understanding shown although the response lacks detail, clarity and/or use of examples from the case study.

Award 3–4 marks if the answer shows a clear understanding of referring to favourable and adverse variances (rather than referring to variances as positive and negative). There is good application of stimulus material in the case study.

(c)

(i) Actual – Budgeted = $\$5\,850 - \$6\,000 = \$150$ (F)

Award 1 mark if only the correct answer is provided or if the working out is correct but the final answer is incorrect.

Award 2 marks if both the working out and the correct answer are provided.

- (ii) Budgeted: $10 \times \$100 = \$1\,000$
 Actual: $8 \times \$100 = \800
 Variance $= \$200 \text{ (F)}$

Award *1 mark* if only the correct answer is provided.

Award up to *3 marks* if both the full working out (budgeted and actual figures) and the correct answer are provided.

Question 3.9.5 Quay's Hair Salon Ltd

(a)

Variable	Budgeted (\$)	Actual Outcome (\$)	Variance (\$)	Variance (F/(a))
Wages	4 000	4 200	200	Adverse
Salaries	4 500	4 500	0	-
Stock	1 800	1 850	50	Adverse
Revenue	15 750	16 040	290	Favourable
Direct costs	3 200	2 950	250	Favourable

Deduct *1 mark* for each error, applying the own figure rule (error carried forward).

(b) Examples of stock that might be held by Quay's Hair Salon Ltd. include:

- Shampoo
- Conditioner
- Hair dyes
- Gel.

Award *1 mark* for each relevant answer, i.e. written in the context of Quay's Hair Salon Ltd.

(c) Examples of direct costs likely to be incurred by Quay's Hair Salon Ltd. might include:

- Wages for hair salon staff
- Stocks of shampoo, conditioner etc.
- Utilities bills, e.g. electricity and water bills.

Award *1 mark* for each relevant answer, i.e. written in the context of Quay's Hair Salon Ltd.

ANSWERS

Unit 4.1 Role of marketing

Question 4.1.1 Sony

- (a) Product-orientated businesses tend to be inward-looking and produce products that they hope will sell in the marketplace. For example, Sony hoped that its ¥380 000 digital cameras and ¥1.5m audio systems would sell. However, with so much competition in these mass consumer markets, Sony seemed to be ignoring the market prices being paid by the average consumer of such products.

Award 1–2 marks if the answer shows some understanding of product orientation.

Award 3 marks if there is an outline of why Sony might be described as a product orientated business.

- (b) Disadvantages of product-orientated marketing include:
- Consumer needs are ignored so there is likely to be a high failure rate, as in the case of Sony's Qualia line of products
 - It is a high-risk marketing strategy since Sony simply hopes that customers will purchase these highly expensive gadgets
 - Marketing and Research & Development costs often prove fruitless for product-orientated firms. Hence, this represents an inefficient use of Sony's finances
 - By being inward looking, Sony's rivals, such as Samsung and Hitachi, are likely to take away some of its market share
 - The extremely high prices set by Sony do not reflect the ability and willingness of customers to pay (such prices) for these products.

Award 1–2 marks if only one disadvantage is clearly explained or if the answer lacks substance/clarity.

Award 3–4 marks for clearly explaining two disadvantages of product-orientated marketing to a business such as Sony. There is appropriate use of business management terminology and application of the stimulus material in the case study.

Question 4.1.2 Singapore's littering policy

- (a) Social marketing is the use of mainstream marketing methods to achieve the benefits of social change rather than for direct commercial gain, e.g. anti-littering campaigns. Other examples include: promoting the use of contraceptives, anti-drug campaigns, protection of animals, anti-smoking campaigns, informing the public about the dangers of under-age drinking, encouragement of recycling and the promotion of healthy eating.

Award 1 mark if there is some understanding of social marketing shown, although the answer might lack clarity.

Award 2 marks if social marketing is clearly defined, with appropriate use of relevant examples.

- (b) The Singaporean government is likely to use social marketing tactics in order to control litter problems in its country. Educating people, rather than simply fining them, is likely to be more cost effective in the long term as it becomes part of the cultural norm (not to litter). The case study mentions the use of litter laws being taught and promoted in schools as a way to embed the desired culture from a young age. It is therefore likely that the government's success will depend heavily on aspects of social marketing. However, much of this will also rely on marketing tactics used to inform the general public about the penalties for littering and/or the benefits of the desired social change.



Other considerations include:

- Actions will only be undertaken if people believe that the benefits of doing so outweigh the costs, i.e. the littering penalties must be substantial
- The government is more likely to succeed if its strategy is based on educating people to comprehend the social goals and benefits, rather than allowing their own perceptions to dictate personal action
- Education, not social marketing itself, has been used to ingrain a culture of cleanliness
- Success does not rely on social marketing itself; legislation (such as littering fines and the Corrective Work Order) is also used to achieve the government's objectives.

In conclusion, the combination of government control and the use of social marketing have clearly worked in ensuring that Singapore remains one of the cleanest countries in the world.

Award 1–2 marks for a generalized answer that is descriptive or lacks substance. There is some understanding shown.

Award 3–4 marks if there is an examination of the role of social marketing, but the answer might lack detail or application to the situation in Singapore.

Award 5–6 marks if there is a thorough examination of the role of social marketing for dealing with litter problems in Singapore. Appropriate business management terminology has been used, with reference to the case study.

Question 4.1.3 Samsung

- (a) The combined two-firm concentration ratio of Samsung (31%) and Apple (approximately 15%) is around 46% of the market.

Award 1 mark if only the correct answer is shown.

Award 2 marks if the correct answer is calculated, with the working out shown.

- (b) Market share is a measure of a firm's sales revenue expressed as a percentage of the market's total sales revenue. The formula is needed for maximum marks.

Note: students may choose to explain market share via concentration ratios or measured in terms of sales volume, so this should be awarded accordingly.

Award 1–2 marks if market share is defined, although there may be some omissions or lack of clarity. Appropriate examples/application may be missing.

Award 3–4 marks if the term is correctly defined, with the correct use of a formula. There is likely to be good use of an example or application to Samsung.

- (c) Market leadership is important to businesses, such as Samsung, for several reasons, including:
- By being the dominant firm in the market, Samsung is able to enjoy high market power so has price setter power.
 - Large-scale operations enable Samsung to enjoy the benefits of economies of scale from, e.g. technological and financial economies.
 - There is a positive correlation between sales revenue and profit levels, i.e. Samsung's profits tend to rise as the firm gains more market share.
 - Market leaders enjoy brand recognition and brand loyalty, which brings benefits such as a potentially higher customer base and an improved corporate image.
 - Having a larger market presence means that Samsung's key stakeholders, such as suppliers, shareholders, managers and employees, are more confident and motivated by the company.
 - Larger firms are likely to have the funds to invest in Research & Development (R&D), which is essential in Samsung's case as it operates in a high-tech and fast-paced consumer electronics industry.

Award 1–2 marks for a generalized answer that is descriptive or lacks substance.

Award 3–4 marks if there is an examination of the importance of market leadership, but the answer lacks detail or application to businesses such as Samsung.

Award 5–6 marks if there is a thorough examination of the importance of market leadership for businesses such as Samsung. Appropriate business management terminology has been used, with reference to the stimulus material in the case study.

Question 4.1.4 FC Barcelona

- (a) Sponsorship refers to financial gifts or donations in support of an event or a business venture in return for dominant marketing exposure of the sponsor's name. In this case, FC Barcelona were sponsored by The Qatar Foundation.

Non-profit organizations (NPOs) are businesses run in a commercial-like manner but without primarily aiming to earn a profit, i.e. profit maximization is not the main goal. Instead, NPOs use their surplus revenues to achieve their social goals rather than distributing them to owners or shareholders. For example, The Qatar Foundation focuses on 'education, scientific research and community development'.

Award 1–2 marks if the terms are defined, although there may be some omissions or lack of clarity. Appropriate examples/application may be missing.

Award 3–4 marks if both terms are correctly defined. Examples related to the case study should be used.

- (b) There are several possible reasons why FC Barcelona chose to sponsor a NPO such as UNICEF:
- FC Barcelona is adhering to its social corporate responsibilities.
 - There may be indirect commercial benefits for FC Barcelona, e.g. an improved corporate image and a wider fan base
 - FC Barcelona is following its core values, i.e. it is more than a football club (that seeks to earn profit).
 - By such unique, altruistic actions, such a decision could bring huge marketing opportunities for the Spanish football club.

Award 1–2 marks for a generalized answer, which might lack depth and/or substance. There is little, if any, application shown.

Award 3–4 marks for a detailed explanation of why FC Barcelona might have decided to sponsor UNICEF, a non-profit organization. There is good use of business management terminology and application of the stimulus material in the case study.

(c) Marketing objectives of NPOs, such as FC Barcelona, might include:

- High market standing, i.e. the extent to which the NPO has a presence in the market. NPOs, such as UNICEF and FC Barcelona, have a higher chance of success if they have a positive image and well-respected reputation.
- Increasing product awareness by promoting the activities of the NPO to its targeted consumer groups. This includes providing relevant information about the NPO's cause and persuading donors and sponsors to part with their money.
- Social change (betterment) through the use of social marketing.
- Reaping gains for beneficiaries, e.g. FC Barcelona's sponsorship deal with UNICEF.
- Product positioning in order to improve the image and perceptions of the NPO held by the general public, e.g. football fans, the media and the general public are more inclined to support FC Barcelona (or any other NPO) if they are in agreement with its purpose (mission statement).
- Consumer satisfaction through providing socially desirable marketing activities for the benefit of others in society.
- Maintaining or increasing market share – even NPOs need to compete for the limited finances of donors, sponsors and customers. A higher market share enables the NPO to develop its brand and to raise brand awareness.
- Meeting the needs of customers – all businesses, whether they aim to make a profit or not, need to meet the needs of their customers in order to thrive and survive.

Award 1–3 marks for a generalized answer that lacks detail or is presented in a list, with little if any explanation.

Award 4–6 marks if the answer compares and contrasts the marketing objectives of FC Barcelona with one other non-profit organization. The response might lack depth or clarity in areas. Award up to 5 marks for an unbalanced answer.

Award 7–8 marks if there is a good discussion that compares and contrasts the marketing objectives of *FC Barcelona* with one other non-profit organization. Appropriate examples are used, with suitable use of business management terminology.

Question 4.1.5 Banning pester power

(a) Ethics can be a rather subjective matter; whether it is ethical to market products directly at children depends on several factors:

- The age of the children being targeted (younger children are more vulnerable so it may be considered less ethical if marketing is directed at them).
- People's perceptions of what is right or wrong, i.e. societal norms.
- The type of product(s) being marketed at children, e.g. textbooks and educational toys or games consoles and fast food?
- The type of selling / marketing techniques being used, e.g. deliberate hard-selling and bait-and-switch techniques aimed at children would probably be considered unethical by most people.

Arguments against marketing products directly at children:

- Are children able to filter so much advertising clutter?
- It creates huge peer and social pressures for children to conform.
- Children (especially the very young) are vulnerable and are easily influenced/manipulated by what they see and hear.
- Pester power techniques can cause tension between family members.

Other issues include:

- Directly targeting children would be considered immoral if marketing techniques take advantage of children and/or their parents.
- Marketing aimed at children does not have to be aggressive, offensive, distasteful or unethical in order to be successful.
- Children today tend to have more autonomy and power in decision-making.
- The bottom line – parents have the final say and, in theory, should be able to make rational decisions in the best interest of their children.

Award 1–2 marks for a generalized answer that lacks details of whether it is ethical to market products directly at children.

Award 3–4 marks for a good examination of several factors, with some understanding of whether it is ethical to market products directly at children. The answer might lack substance in areas and/or the use of relevant examples.

Award 5–6 marks for a thorough examination of several factors, with a detailed understanding of whether it is ethical to market products directly at children. There is effective use of relevant examples and business management terminology.

(b) There are likely to be both negative and positive outcomes of such marketing campaigns:

Positive outcomes	Negative outcomes
• Brand awareness – shock tactics can draw attention and bring publicity to a firm and/or its products	• Boycotting of a firm and its product(s) that cause offense to the general public
• Word of mouth/viral marketing to spread the word quickly	• Upsetting members of the general public and other stakeholder groups
• Reverse reaction to entice people to buy due to the thought-provoking marketing messages	• Damaging the firm's corporate image (which could be irrevocable)
• Can be humorous and memorable, even if (somewhat) offensive	• Fines and legal battles for breaking consumer protection laws

Issues to consider could include the following:

- The distinction between what is humour and what is simply offensive in society.
- Overly offensive advertisements are likely to be banned and this therefore could represent ineffective use of the firm's money (budget).
- Knowledge of shock tactics often spread fast, e.g. viral marketing on the Internet and can become instant hits with the general public.
- Whether the outcome is likely to be positive or negative is not always clear. Shock tactics are often a gamble and therefore represent a high-risk strategy due to their unpredictable outcome.

Award marks for appropriate use of real world examples that students may be aware of, e.g. Thierry & Guy's Fat Bastard brand of wines, the successful rebranding of French Connection to FCUK, and the commercial success of Nestlé's Yorkie bar aimed at aggravating women (their *'It's not for girls'* campaign).

Award 1–3 marks if the answer lacks detail and is limited in scope. The answer might appear in an unexplained list of possible advantages and disadvantages.

Award 4–6 marks if the answer shows some understanding of the effectiveness of marketing campaigns designed to shock, and possibly offend members of the general public. There is limited use of examples. For 6 marks, a two-sided argument is provided.

Award 7–9 *marks* for a detailed discussion of the effectiveness of marketing campaigns designed to shock, and possibly offend members of the general public. There is good application of the stimulus material and effective use of business management terminology. For 9 *marks*, there is also clear evidence of critical thinking and evaluation.

Question 4.1.6 Nestlé's offensive advertising: a strategy?

- (a) Market segment refers to a distinct consumer group or part of a market for a particular product, e.g. children, women, Asian people, retired people, Christians or the highly affluent.

Award 1 *mark* if there is some understanding of market segment shown, although the answer might lack some clarity.

Award 2 *marks* if market segment is clearly defined, with the use of an example related to the case study likely to be used.

- (b) Answers might consider some of the following issues:
- Definition of marketing strategy, with specific reference to actions that are designed to achieve the long-term marketing objectives of an organization.
 - Examples of unethical marketing, such as 'bait and switch' or pester power.
 - The word 'should' is rather subjective so is open to different interpretations; what is offensive or immoral to one segment of the market or region of the world is not necessarily so for other segments and regions.
 - There is a higher risk of getting things wrong rather than right when using shock tactics and unethical marketing techniques. This might therefore reduce the effectiveness of any offensive/unethical marketing campaign.
 - There is increasing pressure for firms to observe their corporate social responsibilities (CSR), so this will affect the extent to which firms might act (un)ethically.
 - It also depends on whether the unethical advertising campaign was intentional; people tend to be less forgiving if immoral practices are deliberate.
 - A two-sided argument should be provided, e.g. unethical and/or offensive marketing can make people curious/become interested in a particular product. It might be suitable during times of slow growth or sluggish trading periods.

Award 1–2 *marks* if the answer lacks detail/is too vague. It might be presented in a list-like format, with no/little relevance to the issue in question.

Award 3–5 *marks* if the answer is sound but lacks detail or substance in certain areas. Some examples are given. There is adequate use of business management terminology. The answer may be one-sided (such as only considering why businesses should act ethically in their advertising campaigns).

Award 6–8 *marks* if there is a balanced discussion of both the benefits and costs of using an unethical/offensive approach to marketing strategy (or the costs and benefits of acting ethically). The discussion is detailed and probing with good use of examples and business management terminology. For 8 *marks*, there is clear evaluation of the extent to which such marketing actions are effective.

Unit 4.2 Marketing planning

Question 4.2.1 Lego

- (a) Revenue stream refers to the money coming into a business from its various operations and activities, e.g. sales revenue from selling Lego toys, revenue from the sale of Lego computer games and ticket sales from its themed amusement parks.

Award 1 mark if the description shows some understanding of revenue stream.

Award 2 marks if the description shows a clear understanding of revenue stream, with appropriate example used.

- (b) Elements of the marketing mix for Lego might include:

- Product – Lego is likely to continue focusing on producing its plastic interlocking bricks, the cash cow product in its product portfolio. This might be developed in line with other franchises such as DC Comics characters from *The Lego Movie* (such as Batman, Superman and The Green Lantern).
- Price – The prices of Lego products need to be set strategically. This could be based on the prices charged by rivals (e.g. Mega Bloks and K'nex). However, as the market leader, it is likely to be able to use market leadership pricing. Price discrimination is likely to be used at the Lego theme parks.
- Promotion – As the target market is mainly children, the promotional mix is likely to use a range of suitable media such as television advertising during children's TV programmes and children's movies at the cinema. The sequel to *The Lego Movie* in 2017 will also have to be appropriately promoted to a mass market audience.
- Place – Distribution channels for Lego toys include its own Lego stores, Lego theme parks, retailers such as Toys R Us, and online orders.
- Packaging – Lego toys are packaged in cardboard boxes for protecting the toy bricks and for promoting the brand and perhaps other Lego products that customers might be interested in buying.
- Physical environment – Marketers have to pay attention to the physical environment in its Lego stores and Lego themed amusement parks. The retail stores need to create an ambience suitable for attracting customers and children in particular.
- People – Sales staff at its Lego stores and Lego amusement parks need to be appropriately trained to serve customers in the desired way to generate sales and brand loyalty.

Note: students might take an alternative approach to preparing a marketing mix for Lego, so should be awarded accordingly. There is no need to cover all aspects of the marketing mix for full marks.

Award 1–2 marks if the answer is vague, generalized or lacks substance.

Award 3–4 marks if the answer shows some understanding of the marketing mix in relation to Lego although there is a lack of development in areas. There is appropriate use of business management terminology and some application made.

Award 5–6 marks if there is a thorough consideration of an appropriate marketing mix for Lego. Appropriate business management terminology and relevant examples are used. The answer is presented concisely and coherently.

Question 4.2.2 Del Monte

- (a) A vision statement outlines the ambitions of a business, i.e. where it ultimately wants to be) in the distant future. Del Monte, for example, has a vision ‘To be one of the fastest growing global branded food and beverage companies’.

Award 1 mark if there is some understanding of vision statement shown, although the answer might lack clarity.

Award 2 marks if vision statement is clearly defined, with the use of a relevant example.

- (b) The marketing mix consists of the interrelated elements of the 4 Ps used to successfully market a physical product, i.e. price, product, promotion and placement. The broader marketing mix for services includes: physical evidence, people and process. Packaging, as an eighth P in the marketing mix, is also relevant to Del Monte.

The marketing mix plays an important part in helping businesses, such as Del Monte, to achieve their organizational objectives. For example:

- Product - highly desirable products can help Del Monte to improve its market share and to diversify to other market segments such as pet food.
- Price - the right price(s) will boost sales revenues and customer perceptions of quality. Private sector firms, such as Del Monte, charge different prices compared to those in the public sector due to their contrasting organizational objectives.
- Promotion - this is used to differentiate Del Monte from its rivals in order to give it a competitive edge and higher market standing (both are marketing objectives directly linked to organizational objectives).
- Place - the right distribution channels are needed to ensure that customers get the right products at the right time; essential for ensuring customer satisfaction and therefore having some influence over the extent to which Del Monte can achieve its organizational objectives.

However, marketing alone may be insufficient to allow businesses, such as Del Monte, to achieve their organizational objectives. Other considerations include:

- Human resource management issues, e.g. a highly motivated workforce is important to ensure customer satisfaction at Del Monte.
- Finance issues, e.g. budgetary constraints may limit the extent to which organizations can achieve their organizational and marketing objectives.

Indeed, the marketing mix is more inclined to be used to achieve the marketing objectives of an organization, e.g. Del Monte striving for increased market share, higher market standing, product positioning and diversification (pet food market). It is unlikely that the marketing mix would be sufficient to achieve the broader organizational objectives of a business.

Award 1–2 marks if the answer is vague, generalized or lacks substance.

Award 3–4 marks if the answer shows some understanding of the marketing mix, although there may be omissions. There is some application made to the achievement of organizational objectives.

Award 5–6 marks if there is consideration of the marketing mix and how it can be used to help businesses to achieve their objectives. Appropriate terminology and relevant examples are used.

Award 7–8 marks if there is a balanced discussion of how the marketing mix can help businesses, such as Del Monte, to achieve their marketing objectives. Appropriate terminology and relevant examples have been used. There is evidence of critical thinking.

Question 4.2.3 Oasis Hong Kong Airlines



- (a) Innovation refers to the advancement or new idea in creating a business idea. As no other airline company had provided low-cost (budget) long-haul air travel for years, Oasis's approach can be argued to be innovative in the industry.

Award *1 mark* if the answer outlines some understanding of why Oasis's business approach can be considered to be innovative.

Award *2 marks* if the answer clearly outlines why Oasis's business approach might be considered as being innovative. There is good use of business management terminology.

- (b) Price is only one factor that affects the level of demand for a good or service. Despite the low prices being offered, customers may have preferred to pay a little extra for peace of mind in travelling with well-established providers such as Cathay Pacific or Singapore Airlines. In addition, with any innovative product, relatively few customers (known as innovators and early adopters in Everett Roger's diffusion of innovation model) would be attracted.

Award *1 mark* for a brief comment on why customers might not have been keen to fly with Oasis. The answer might be presented in a list-like format with little if any explanation.

Award *2 marks* if the commentary clearly outlines why customers might not have been keen to fly with Oasis, despite its low prices.

- (c) Innovators refers to the market segment (the group of customers) who are enthusiasts about new products in the market place. They are the risk takers who are prepared and able to pay for the exclusivity of 'being the first'. Marketing strategies need to focus on the uniqueness and exclusivity of the product. In the case of Oasis, the focal point will be on the price. Specific segments are likely to be targeted, such as price-sensitive customers (e.g. Hong Kong students studying abroad in the UK or Canada) or those with relatives and friends in Canada and the UK.

By contrast, the late majority is the consumer group who is rather unadventurous and will only purchase the product when they are completely confident about it, e.g. the reliability of the services being provided by Oasis. Therefore, the late majority will be attracted by quality assurance at Oasis. Problems will need to be ironed out, followed by a well-planned public relations strategy based on the airline's proven track record (and the benefits of low-cost long haul air travel). Promotion may need to take place on a large scale through above the line methods to attract a large number of potential customers (rather than specific segments of the market).

Note: students might take an alternative approach to answering this question, such as examining different market segments such as business travellers, tourists, peak and off-peak travellers, or even different marketing strategies aimed at children and adults. Such an alternative approach should be rewarded accordingly.

Award *1–2 marks* for a vague and incoherent answer, although some understanding is shown. The answer might appear in a list-like format with little, if any, explanation.

Award *3–4 marks* if there is an analysis of some differences in the marketing strategies used to target innovators and the late majority, although it lacks clarity in areas. There is little, if any, application at the lower end.

Award *5–6 marks* if there is a thorough analysis of the differences in marketing strategies used to target innovators and the late majority. Appropriate terminology and examples have been used in the context of Oasis Hong Kong Airlines.

Question 4.2.4 The business of international students

- (a) Globalization refers to the integration and interdependence of social, politic and economic issues (goods, services, capital and people), across the world. For example, consumers from different countries have increasingly similar habits and tastes. Hence, educational establishments, such as universities, no longer cater only for local and domestic students.

Innovation refers to the commercialization of a new idea or reinvention of an existing idea. In some cases, innovations even create new industries, such as online education and distant learning. In today's highly unpredictable business world, innovations can give organizations such as universities a competitive edge.

For each definition, apply the following mark scheme:

Award *1 mark* if there is some understanding of globalization (innovation) shown, although the answer might lack some clarity.

Award *2 marks* if globalization (innovation) is clearly defined, with the use of an example related to the case study used.

- (b) Segmentation can help universities to have a better understanding of the different types of customers (students in this case) and hence help such organizations to create better (more cost-effective) marketing activities. Students might be segmented in different ways, such as:
- Gender, e.g. male and female students might have varying hobbies and interests and this can help universities to plan their extra-curricular activities (thereby enhancing the experience of their customers).
 - Ethnic background, e.g. culture and background. Many universities have societies and clubs to cater for people from different regions of the world. The product range in the university canteen could also be affected by the demographics of the students.
 - Age, e.g. high school graduates, postgraduates and mature students.
 - Language, e.g. newsletters and other forms of written marketing correspondence can be translated into different languages to cater for students from overseas countries.
 - Religion - some colleges and universities are affiliated by religion, e.g. Hong Kong Baptist University, Saint Mary's College of California, and University of Notre Dame.
 - Academic ability, e.g. Universities can use segmentation data to target appropriate students for their establishments and courses. Cambridge and Harvard, for instance, target their marketing at top (academic) schools across the world. Such universities are more likely to use focused marketing; other universities may use more mainstream marketing techniques.

Overall, effective segmentation can help universities to develop more specific marketing strategies for their overseas customers and to have opportunities to target a wider range of students.

Award *1–2 marks* if the answer is generic and rather descriptive with little, if any, application to the business of international students.

Award *3–4 marks* if the answer makes reference to market segmentation and cost-effective marketing activities. There is appropriate use of business management terminology although application might be weak in areas.

Award *5–6 marks* for a thorough examination of how market segmentation might help universities to have more cost-effective marketing activities to attract overseas students. There is effective use of business management terminology and relevant examples.

Question 4.2.5 Pink Ladies

- (a) Market research refers to marketing activities designed to discover the opinions, beliefs and preferences of potential and existing customers in order to identify and anticipate their wants and needs. For example, market research conducted by Pink Ladies found that customers (women) prefer female taxi drivers.

Award *1 mark* if there is some understanding of market research shown, although the answer might lack some clarity.

Award *2 marks* if market research is clearly outlined, with the use of an example related to Pink Ladies likely to be used.

- (b) Award *2 marks* for each alternative method of market research that is considered in the context of Pink Ladies (up to a maximum of *4 marks*). These might include:

- Qualitative versus Quantitative market research techniques
- Focus groups
- Interviews/Surveys with potential female clients
- Secondary research, e.g. economic data (to judge the level of consumer spending levels).

Award *1–2 marks* if the answer explains in detail one other market research technique that Pink Ladies was likely to have used or if two methods are outlined vaguely. Appropriate examples/application might be missing.

Award *3–4 marks* for clearly explaining two other market research techniques that Pink Ladies was likely to have used. Appropriate business management terminology and examples related to the case study are used.

- (c) A niche market refers to a small and lucrative market segment. Pink Ladies is specifically targeted at women travelling alone who do not have or want to use their own cars. Advantages of operating in a niche market include:

- Limited, if any, competition since Pink Ladies offers a unique service. Therefore premium prices can be charged, allowing the firm to earn higher profit margins.
- Focused marketing at the specific market segment, which helps Pink Ladies to meet its consumer needs better, thereby improving the firm's competitiveness.
- More effective use of the marketing budget as marketing is highly concentrated on a particular target market (female travellers in this case).
- Highly specialized service, which helps Pink Ladies to promote brand awareness and customer loyalty.

Award *1–2 marks* if the answer explains one advantage in detail or two advantages are vaguely outlined. Appropriate examples/application might be missing.

Award *3–4 marks* for clearly explaining two potential advantages for Pink Ladies operating in a niche market. Appropriate business management terminology and examples related to the case study are used.

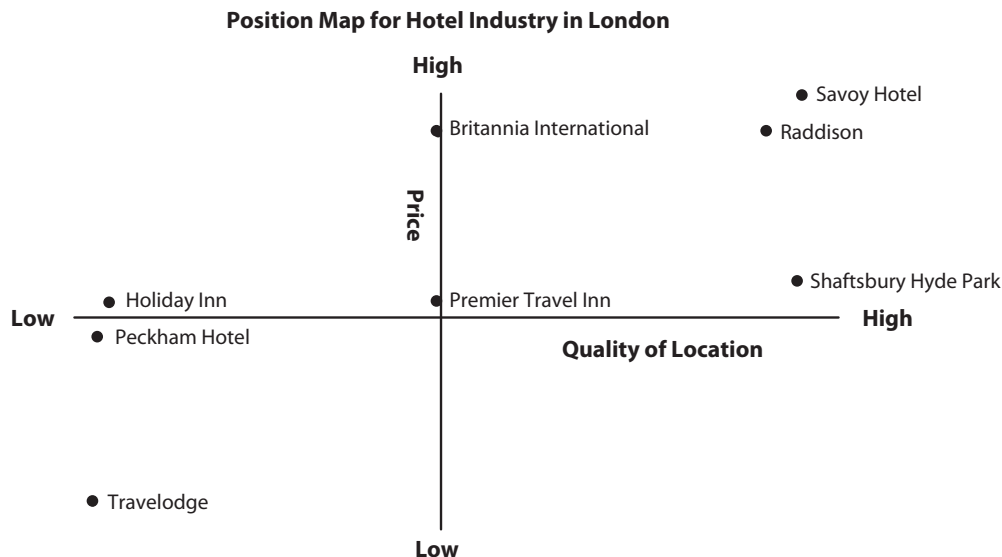


Question 4.2.6 The hotel industry, London (UK)

(a) Perception maps will vary according to the variables chosen; that is:

- Price with Quality of location
- Price with Quality of service
- Quality of location with Quality of service.

One example is shown below:



Award 1–2 marks if there are major errors/omissions in the position map.

Award 3–4 marks if a position map is constructed with a few errors/omissions.

Award 5–6 marks for an accurate and correctly labeled position map. All eight hotels are accurately shown in the correct quadrants.

(b) The use of position maps may be beneficial to both Savoy Hotel and Peckham Hotel because:

- It can provide information to aid their pricing decision, e.g. Peckham Hotel will charge less than Savoy Hotel.
- It can help the hotels to determine whether they want to reposition, e.g. is Peckham Hotel content with being perceived as having 'low quality' service? There is no particular need to change if this is what the hotel wants to focus on, i.e. it cannot charge 'medium' prices for high quality services.
- Savoy Hotel may use such perceptions to fine-tune its marketing by emphasizing the perceptions of high quality.
- For hotel chains, it can help to determine whether there are gaps in the market, e.g. Savoy Hotel may wish to target the low- or medium-range market, perhaps using a different brand of hotels, in order to reach a broader customer base.

Award 1–2 marks if there are omissions in the explanations or if the answer is generalized, i.e. the answer fails to consider the benefits to both Savoy Hotel and Peckham Hotel.

Award 3–4 marks if the explanation is sound and there is consideration of the benefits of using position maps to both Savoy Hotel and Peckham Hotel.

Question 4.2.7 J.D. Power and Associates

- (a) A mass market refers to a large consumer market for a particular good or service, thus requiring undifferentiated marketing. With mass markets, there is no need to specifically target individual market segments. For example, Toyota cars are often mass marketed at all their consumer groups, without specific detail to age, religion, gender or ethnicity.

Award 1 mark if there is some understanding of mass market shown, although the answer might lack clarity.

Award 2 marks if mass market is clearly defined, with the use of a relevant example.



- (b) A unique selling point, or unique selling proposition, is any aspect of a product that makes it stand out from those offered by competitors. The USP explains why customers buy the product/brand over rival brands, for example due to its quality.

Quality awards and ratings, such as those awarded by J.D. Power and Associates, can provide carmakers with a unique selling point because it can be a major source of competitive advantage and therefore firms, such as Toyota, Lexus, Porsche and Hyundai, will want to emphasize their product's quality awards and high quality ratings in order to attract customers. The data from J.D. Power & Associates can therefore help develop these firms' corporate image (customer perceptions) and to differentiate themselves from other competitors.

Award 1–2 marks if the answer shows some understanding of 'unique selling point' although there are omissions in the explanation.

Award 3–4 marks if there is a clear understanding of the term 'unique selling point' and a good explanation of how quality awards and ratings can provide motor vehicle manufacturers with a USP. There is good use of business management terminology and application throughout the answer.

- (c) Having a USP can provide major benefits and allow a business to achieve its objectives such as increased market share. For example, the USP for a car manufacturer, such as high quality ratings, can improve the market standing and corporate image of the business (which are organizational objectives in their own rights). If this leads to increased sales, then the firm can also benefit from economies of scale and improved profits.

However, obtaining a USP can be very costly. Not many companies will have the financial resources to improve the quality of their cars to the extent that they destroy the USP of the likes of Porsche and Toyota, i.e. there might be a large opportunity cost in trying to achieve a USP.

In highly competitive markets, a unique selling point may be short-lived as rivals seek to reduce or eliminate such competitive barriers, e.g. by improving the quality of their own cars. However, this may be more difficult in the motor industry due to the huge costs of R&D required to improve quality in the long run.

The product is central to a firm's success. However, other aspects of the marketing mix also need to be considered, e.g. the price of the cars, the effectiveness of the promotion used to market the cars, the quality of the customer services provided and where/how the cars are distributed. Furthermore, it is most likely that having a USP will help a firm to thrive in the short run only; in a continuously changing and highly competitive industry, having a USP might not be sufficient to allow a business to achieve its organizational objectives in the long run.

Award 1–3 marks if the answer is generalized and lacks coherence. At the upper end, there are examples used and some attempt at application.

Award 4–6 marks if the analysis is good, although some details might be missing. There is no evidence of an attempt to evaluate the extent to which having a USP can help businesses to achieve their objectives.

Award 7–8 marks for a balanced discussion with good use of business management terminology, examples and application. The answer addresses the extent to which having a USP in a highly competitive market can help an organization to achieve its objectives. There is evidence of evaluation and critical thinking.

Unit 4.3 Sales forecasting [HL Only]

Question 4.3.1 Esswood Campers

- (a) Mean = \$3300
Median = \$3250
Modal = \$3000



Award 1 mark for each correct calculation, up to a maximum of 3 marks.

- (b) Range = 4500 – 2,500 = **\$2000**
The range shows the difference between the highest and lowest sales forecast figures for Esswood Campers, i.e. there is a difference of \$2,000 between the peak period and the off-peak period for the firm.

Award 1 mark for the correct calculation.
Award 2–3 marks if the answer contains the correct calculation and the commentary is sound. For maximum marks, there must be clear application to the case study.

- (c) 4-month moving averages for Esswood Campers:

Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
3500	3000	3000	2500	2800	2600	2900	3000	3600	4500	4200	4000
	3000	2825	2725	2700	2825	3025	3500	3825	4075		

Award 1–2 marks if there is some understanding shown in the calculation of 4-point moving averages. There are two or more errors. Apply the own figure rule where appropriate.
Award 3–4 marks if there is a clear understanding shown in the calculation of 4-point moving averages. For full marks, there are no errors.

(d)

Month	Sales (\$)	4-point moving average (trend)	Centred trend (\$)	Variation (\$)
Mar	3500			
Apr	3000			
		3000		
May	3000		2912.5	+87.5
		2825		
Jun	2500		2775	-275
		2725		
Jul	2800		2712.5	+87.5
		2700		
Aug	2600		2762.5	162.5
		2825		
Sep	2900		2925	-25
		3025		
Oct	3000		3262.5	-262.5
		3500		
Nov	3600		3662.5	-62.5
		3825		
Dec	4500		3950	+550
		4075		
Jan	4200			
Feb	4000			

Award 1–2 marks if there is some understanding shown in calculating the variation from the trend. There are two or more errors. Apply the own figure rule where appropriate.

Award 3–4 marks if there is a clear understanding shown in calculating the variation from the trend. For full marks, there are no errors.

- (e) Accurate sales forecasting (including knowledge of average sales figures and the range) can help Esswood Campers in several ways, including:
- Improving cash flow management, e.g. knowing that sales are likely to be lowest in June can help the firm to arrange an overdraft or to secure other sources of external finance if necessary.
 - Stock control can be improved, e.g. more stock is needed for peak period from November to March.
 - Improved workforce planning, e.g. more part-time staff may be hired in the summer months of December to February.
 - Aids the budgeting process, e.g. comparing income and expenditure (variance analysis).
 - Helps with financial planning, e.g. to predict break even and profits/losses for the business.

Award 1–2 marks if the explanation is incomplete and/or vague. The answer might be presented as an unexplained list.

Award 3–4 marks if the explanation is thorough and good examples are used in the context of Esswood Campers.

Question 4.3.2 Chatterjee Travel Ltd.

- (a) A niche market targets a specific and well-defined market segment. Firms that operate in niche markets cater for the distinct and precise needs of their customers. Unlike mass markets, the client base for niche markets is relatively small. Chatterjee Travel Ltd. might be considered to operate in a niche market because it offers a specialised service to its wealthy Finnish clients who are fans of the English Premier League.

Award 1 mark if there is some understanding of niche market shown, although the answer lacks clear application to the case study.

Award 2 marks if niche market is accurately outlined, with clear application to the case study material.

- (b)

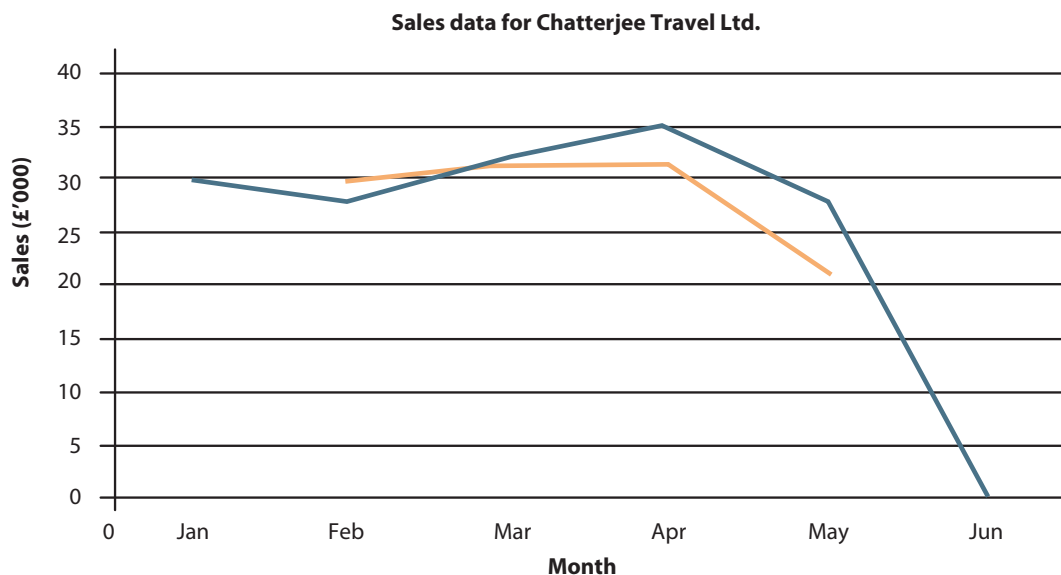
Sales (£'000)	Jan	Feb	Mar	Apr	May	Jun
	30	28	32	35	28	0
3-month moving averages	$90 \div 3 = \text{£}30,000$					
		$95 \div 3 = \text{£}31,1667$				
			$95 \div 3 = \text{£}31,1667$			
				$63 \div 3 = \text{£}21,000$		

Award 1–2 marks if there is no working out shown and/or more than two mistakes are made.

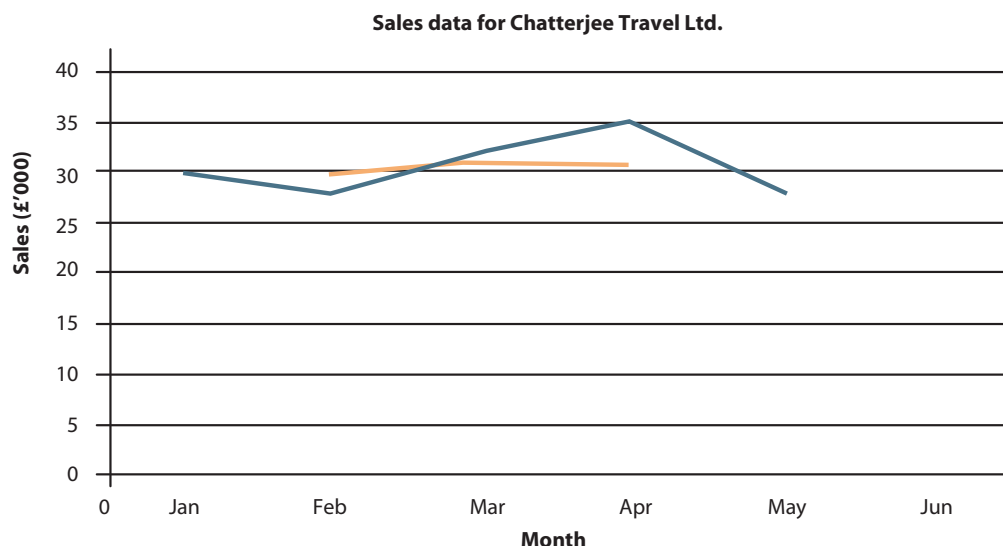
Award 3 marks if the answer is correct but not expressed in £'000 and/or there are minor errors/omissions.

Award 4 marks for a correctly worked out set of three-point moving averages. Working out is shown and there are no errors or omissions.

- (c) Actual sales figures and the moving averages for Chatterjee Travel Ltd.



As the zero sales in June (end of the football season) distorts the sales trends, it is possible to plot the 3-point moving average for the period ending 31 May:



Deduct *1 mark* for each error made. For full marks, the axes should also be correctly labelled, with an appropriate title.

Note: The monthly sales figures could also be plotted as a bar chart, with the 3-month moving average.

Due to the large fluctuations in sales (with a variance of £35,000 in April and zero sales in June), it is difficult to establish any underlying trend line by using the actual sales figures (see first graph in Question 4.3.2c). However, the 3-month moving average does smooth out these fluctuations to some extent. The zero sales in June, end of the football season, also puts a huge statistical bias on the moving average (hence the use of the second graph in Question 4.3.2c).

During the football (soccer) season, the range in sales is only £7,000 (from £35,000 in April to £28,000 in February and May). As the range is small, Chatterjee Travel Ltd. is likely to be able to manage this. However, with no sales at the end of the football season, Chatterjee Travel Ltd. will need to have strategies in place to deal with a lack of cash inflow during such times, i.e. sales forecasting can help the firm to improve its financial management. There are also likely to be some staffing issues during the off-peak football season.

Award *1–2 marks* if there is some understanding of trends and seasonal fluctuations. The commentary might lack reference to the data and application to Chatterjee Travel Ltd.

Award *3–4 marks* for an applied commentary that demonstrates a clear understanding of trends/seasonal fluctuations and how these might affect the operations of Chatterjee Travel Ltd. Relevant examples and business management terminology have been used.

Question 4.3.3 Acosta Adventures

- (a) Sales forecasting can be beneficial to businesses, such as Acosta Adventures, because it helps Jeffrey Acosta to have better control of his business. For example, the firm knows when to hire more staff (during seasonal peaks). It can also help Acosta Adventures to improve its budgeting for planning its various range of activities for tourists.



Award *1 mark* for a vague understanding of how sales forecasting might help a business.

Award *2 marks* for a clear understanding of how sales forecasting can help a business such as Acosta Adventures. There is good use of business management terminology with application to the case study likely to be shown.

(b) Three-part moving average and the variation from the trend for Acosta Adventures:

Year	Quarter	Sales (THB million)*	3-part moving average (trend)	Variation (THB million)*
Last year	1	7.89		
	2	7.56	8.33	-0.77
	3	9.55	7.89	1.66
	4	6.57	7.94	-1.37
This year	1	7.69	7.27	0.42
	2	7.55	8.41	-0.86
	3	9.98	8.00	1.98
	4	6.47	8.12	-1.65
Next year	1	7.92	7.35	0.57
	2	7.67	8.64	-0.97
	3	10.32		

* Thai baht

Award 1–2 marks if there is some understanding shown in calculating the three-point moving average and variation from the trend. There are two or more errors. Apply the own figure rule where appropriate.

Award 3–4 marks if there is a clear understanding shown in calculating the three-point moving average and variation from the trend. For full marks, there are no errors.

(c) There are at least two possible answers, including:

- Averaging the two Q4 figures (THB6.57m + THB6.47m) = THB6.52m
- Averaging the seasonal variation for Q4 (-THB1.37m + -THB1.65) = -THB1.51m. This figure is taken away from the trend of THB7.99m, i.e. Q4 = THB6.48m.

Award 1 mark for a vague understanding of how the trend is extrapolated.

Award 2 marks for a clear understanding of how the trend is extrapolated. The working out is clearly shown.

(d) The sales forecasting data above can help the operations of Acosta Adventures for a few reasons. Considerations include the following:

- The range is THB3.85 million (Q3 next year compared to Q4 this year), whereas the range for the 3-point moving average is only THB1.37 million.
- The variation from the trend can help Acosta Adventures to better manage its staffing and resource needs, e.g. Q4 has a negative variation from the trend so less staff are needed during this off-peak period.
- The data can help Acosta Adventures with its pricing strategies, such as setting higher prices for its tourist package during peak periods (Q3 when there is a positive variation from the trend).

Award 1–2 marks if there is some understanding of how sales forecasting data can help the operations of Acosta Adventures. Application of the data is limited or missing.

Award 3–4 marks if there is a clear understanding of how the sales forecasting data can help the operations of Acosta Adventures. There is good reference to the data calculated in Question 4.3.3c, with proficient use of business management terminology.

Question 4.3.4 Bhavé Bakery

- (a) To 'extrapolate the trend' means to identify the trend by using past sales data and extending this trend to predict future sales. Graphically, the trend can be identified by a line of best fit and extrapolation simply extends this line to make sales forecasts.

Award 1 mark for a vague understanding of what it means to extrapolate the trend.

Award 2 marks for a clear understanding of what it means to extrapolate the trend. There is good use of business management terminology with application to the case study likely to be shown.



- (b) Four-weekly moving average for Bhavé Bakery

Week	Sales (₹)	4-week total	4-week average
1	7,347		
2	6,123		
3	6,735		
4	7,347	27,552	6,888.00
5	7,041	27,246	6,811.50
6	7,531	28,654	7,163.50
7	7,837	29,756	7,439.00
8	6,061	28,470	7,117.50
9	6,000	27,429	6,857.25
10	6,368	26,266	6,566.50

Award 1–2 marks if there is some understanding shown in calculating the four-point moving average. There are two or more errors. Apply the own figure rule where appropriate.

Award 3–4 marks if there is a clear understanding shown in calculating the four-point moving average. For full marks, there are no errors.

- (c) With very little past data (as Bhavé Bakery has only recently introduced cookies to its menu), predicting sales for new products is much more difficult than predicting sales for well-established products.

Random fluctuations in the demand for cookies make it very difficult to make any meaningful explorations, i.e. analysing the data for the past 10 weeks doesn't seem to reveal any strong trends. In order to use extrapolation to make future sales forecasts, Bhavé Bakery requires far more data to identify any long-term trends. This is a weakness of extrapolation – it relies on the assumption that past trends will continue into the future, but random fluctuations in sales makes it difficult to make such predictions.

Award 1–2 marks if there is some understanding of how random fluctuations make it difficult to make accurate sales forecasts. The answer lacks depth in areas.

Award 3–4 marks if there is a clear understanding of how random fluctuations make it difficult to make accurate sales forecasts. There is good use of business management terminology.

Unit 4.4 Market research

Question 4.4.1 Questioning questionnaires

(a) Errors/mistakes in the questionnaire include:

- Asking for the name of the respondent is not necessary for the purpose of this particular research.
- The age category has a couple of errors, i.e. which box should those aged 15 tick? Also, the age range for those aged 36–64 is significantly larger than the range for the other age categories so this will cause some statistical bias.
- The gender question could be better structured with selection boxes for male and female. This will prevent varying answers being given, e.g. 'F' versus 'Female'.
- The fourth question 'Where do you live?' does not seem to have much relevance to the research; if this information was important to know, then a range of options (based on the area where the respondents live) should be given. Again, a host of (unwanted) answers might be given, e.g. 'in a house', 'in Europe' or a specific postal address.
- Q5 is redundant. Assuming the questionnaire is being used in Kennedy Town Centre, the respondent obviously does shop there.
- Q6 is too vague and the questionnaire should specify the parameters, e.g. per week, per month or per year.
- Q8 is misleading and confusing, especially for those who answer 'no' to Q7. There is also very limited space to give a qualitative response.
- Being a greetings card shop, the answer to Q9 should be quite obvious. If the business has a broader product range, then the questionnaire should list the various product categories in the question, e.g. greeting cards, stationery, toys, wrapping paper, gift boxes etc.
- Q10 is a very leading question as there isn't a 'no' option!

Award *1 mark* for each correctly identified mistake, up to *3 marks*. Award a further *1 mark* for each explanation, up to *3 marks*.

(b) **Qualitative questions** involve getting non-numerical answers and opinions from respondents, e.g. how a customer feels about a particular product or brand. They are commonly used as part of primary research in order to understand the behaviour, attitudes and perceptions of respondents and customers by asking open-ended questions. Asking respondents *why* they choose to buy from a particular greetings card retailer would be an example.

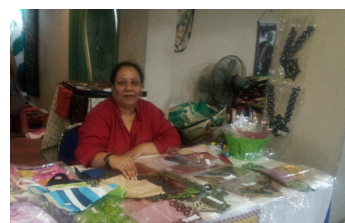
By contrast, **quantitative questions** rely on a much larger number of responses to get 'hard' answers (factual and measurable information rather than people's opinions) to aid statistical analysis, e.g. the use of closed questions such as the age or gender categories.

Award *1–2 marks* if the distinction is not very clear and there are omissions in the answer.

Award *3–4 marks* if a clear distinction is made between qualitative and quantitative primary market research. There is good use of examples.

Question 4.4.2 Zaffran Craftphoria

(a) Primary market research is field research or bespoke research that involves gathering new data first-hand for a specific purpose, such as using surveys (questionnaires) to gather feedback from customers about what appeals to them.



Award *1 mark* for a vague understanding of what is meant by primary market research.

Award *2 marks* for a clear understanding of primary market research. There is good use of business management terminology with application to Zaffran Craftphoria shown.

- (b) Primary market research can be of value to small businesses such as Zaffran Craftphoria for several reasons, including:
- Cheaper - it is probably cheaper for Wahida Mostafa to collect primary research data, such as feedback from her customers on her Facebook page, than for her to gather secondary data for which she may need to pay.
 - Primary data from customers can help to identify buying patterns and to anticipate changes in market trends, thus enabling Zaffran Craftphoria to be better aware of their customers' needs and wants.
 - Relevance - primary research is carried out for the specific purpose of the business, so it directly addresses the questions that Wahida Mostafa wants answered. By contrast, secondary data is not always in a format that can be easily used by small businesses like Zaffran Craftphoria.
 - Confidential and unique - as the market research is done first-hand, no one else (including rivals of Zaffran Craftphoria) has access to the information.

Award *1–2 marks* for a vague answer that lacks detail and/or depth. The answer may be presented in a bullet point list without sufficient explanation. Award up to *2 marks* if only one point is explained.

Award *3–4 marks* if there are good explanations of the value of primary market research for small businesses such as Zaffran Craftphoria. Relevant examples are used with accurate use of business management terminology.

Unit 4.5 Product

Question 4.5.1 Sony PlayStation 4

- (a) A first mover advantage (FMA) is a method of competitive advantage gained by being the original firm to enter a particular market or industry. These advantages include being able to establish brand awareness, brand recognition and brand loyalty before competitors enter the market.

Product life cycle (PLC) refers to the typical stages that a product goes through from its initial design and launch to its eventual decline and withdrawal from the market. Different products undergo each of the stages (research, launch, growth, maturity, saturation and decline) at varying speeds.

Award *1–2 marks* if the terms are defined although they lack some detail/clarity. Examples may also be missing. Alternatively, award *2 marks* if only one of the key terms is accurately defined.

Award *3–4 marks* if both terms are clearly defined. There is good use of examples and proficient use of business management terminology.

- (b) Answers should make connections between a product's cash flow situation and its stage in the product life cycle. The following is an example.

R&D	There will be negative cash flow as the money spent on R&D will be large, without any corresponding cash inflow.
Launch	There will be some cash inflow, with innovators and early adopters purchasing the PSP4 games console, although net cash flow will be negative.
Growth	Net cash flow will go into positive territory as the PSP4 establishes itself in the market. <i>Sony</i> is likely to be making profits at some point during the growth stage of the PSP4's product life cycle.

Maturity	The PSP4 is possibly a cash cow for Sony at this stage, thereby contributing significantly to the company's cash flow.
Decline	The PSP4's lack of popularity at this stage means that the cash flow position will become unfavourable. This fall will continue unless the firm introduces effective extension strategies.

Award 1–2 marks if the answer is generalised with little substance. Points may be presented in a list-like format with limited understanding shown.

Award 3–4 marks if there is an examination of most stages in the PSP4's life cycle with reference to its cash flow position. At the lower end, the answer lacks application.

Award 5–6 marks if there is an examination of the various stages in the PLC, with clear explanations of the relationship between the cash flow for Sony's PSP4 games console and its life cycle.

Question 4.5.2 Mattel

- (a) Product portfolio refers to the collection of the different products made or sold by a business. In this case, Mattel's product portfolio includes: toy cars, board games, dolls, cuddly toys and educational toys.

Award 1 mark if there is some understanding of product portfolio shown, although the answer might lack clarity and application to Mattel.

Award 2 marks if product portfolio is clearly defined in the context of the case study.

- (b) Having a broad product portfolio is important to Mattel for several reasons, including:
- Increased sales due to a wider customer base being catered for. This can also encourage repeat purchases (consumer loyalty) as customers may be attracted to buying a range of different toys.
 - Risk-bearing economies of scale. A broad and diversified product portfolio can help to compensate losses made by unpopular product lines by the profits earned from more successful products, i.e. a broad portfolio reduces risks.
 - It can increase Mattel's market share and market power, i.e. the firm's competitiveness improves.
 - Economies of scale. Mattel can promote the family brand across the broad portfolio of products, thereby cutting marketing and other related costs.
 - Broadening the product portfolio can help to publicise the *Mattel* brand and this makes future product launches more likely to succeed.

Award 1–2 marks for explaining the meaning of a broad product portfolio. The answer lacks depth of understanding of the importance of having a broad product portfolio.

Award 3–4 marks for a good examination of the importance of a broad product portfolio for a business. The answer might lack substance or the use of examples.

Award 5–6 marks for a thorough examination of the importance of a broad product portfolio for a business such as Mattel. There is proficient use of business management terminology and relevant examples.

Question 4.5.3 Virgin Group Ltd.

- (a) A product portfolio is the range of all products that a business owns. In large firms, such as Virgin, a broad and balanced product portfolio might be considered desirable for several reasons, including:
- Having an extensive product portfolio allows firms, such as Virgin, to access a wider range of markets, e.g. transportation, beverages and mobile phones.

- By offering a broad and balanced range of products, Virgin can increase its sales revenue as its portfolio of products appeal to wider and larger markets.
- A broad product portfolio gives customers greater choice and therefore this can improve Virgin's profits and competitiveness.
- It can also spread risks and improve Virgin's cash flow – profits made by cash cows (e.g. Virgin Atlantic) and stars in the product portfolio can be used to offset losses made by dogs and any unprofitable product lines.
- Hence, a broad and balanced product portfolio can be considered crucial for business success as the conditions facing businesses are ever changing.

Award 1–2 marks if the explanation is generalised and lacks depth. There may be little, if any, reference to the case study.

Award 3–4 marks if the answer clearly explains why a broad and balanced product portfolio might be important for business success. Relevant examples and business management terminology are used.

- (b) Virgin needs a different marketing mix for each of its distinct products as each product is aimed at a different target market and each product is also likely to be in a different stage of the product life cycle. For example, Virgin Atlantic might be marketed at middle to high income earners who can afford to travel overseas. It would therefore have to be promoted in the right places so that the right people are targeted and the advertising is effective. This type of promotion would be very different from the promotion of Virgin Cola which could be promoted as a mass market product aimed at people of any income bracket.

There are several justifications for using such a varied approach:

- Virgin is an immensely large organization which has an extremely large product portfolio, so a uniform marketing mix will not be suitable, e.g. the promotional strategy for an airline and a mobile phone company would be entirely different.
- The products within the portfolio may share nothing in common except the parent name, Virgin, so a homogenous marketing mix is unlikely to succeed in marketing the multinational company's huge range of products such as flowers and train travel.
- Pricing strategies will vary for the different categories of products within the Boston matrix, e.g. premium prices can be charged for cash cows whereas penetration pricing might be used for wild cards.
- The distribution channels for the products in the product portfolio may be vastly different, e.g. mobile phones and cola could be sold in supermarkets but it is unlikely that airline or train tickets would be purchased in such outlets.
- A different marketing mix is used for each of their products in order to differentiate them from each other. Virgin needs to ensure that each product has its own identity so that if one of the products fails or does not appeal to a particular market segment it will not affect customer perceptions of the other products in the portfolio.
- The type of promotion used for problem children (wild card) products would also be more persuasive, whilst that used for cash cows might just be to remind the customer about the product in order to keep sales revenue high.
- The differences in these marketing mixes can highlight and optimize the special qualities of each product within Virgin's portfolio, thereby helping it to maximise potential sales and profits.

Award 1–2 marks if the answer is vague, generalised or lacks substance.

Award 3–4 marks if the answer shows some understanding of the marketing mix, although there may be omissions in the explanation. There is some application made to the Virgin Group.

Award 5–6 marks if there is an examination of the (main) 4 Ps in the marketing mix and the reasons why Virgin Group needs a different marketing mix for each of its distinct products. The answer is written in the context of the case study with appropriate use of examples and business management terminology.

Question 4.5.4 Lexus

(a) Reasons for Toyota's decision might include the following:

- Toyota is a well-established producer of cars around the world for the mass market so a new brand name, Lexus, would be required to penetrate the luxury car industry.
- Association and market positioning of the Toyota brand would have meant that its Lexus cars could have been considered far too expensive.
- Lexus would be established as a separate strategic business unit (division) operating as a separate profit centre, thereby giving it a unique and recognizable brand name and corporate image to differentiate it from other (Toyota) cars.
- A new brand, associated with luxury, helps to create a sense of value for money in a market dominated by established carmakers such as BMW, Lincoln, Cadillac and Mercedes-Benz.
- Due to the higher costs of production of Lexus cars, it is important to be able to charge higher prices; so by using a new brand label, customers are more willing to pay a substantially higher price for a premium brand.

Award 1–2 marks if the explanation is incomplete and/or vague. It might be presented as a list with no or minimal elaboration.

Award 3–4 marks if the explanation is thorough and is written in the context of Toyota and Lexus. There is good use of business management terminology and relevant examples.

(b) The roles of branding to multinationals such as Toyota include:

- To create a legal identity for a product that is protected by law in the various countries that Toyota and Lexus operate in.
- To act as a vital source of product differentiation (not just from its rivals but also from its own strategic business units, such as Toyota and Lexus divisions of the Japanese carmaker).
- To encourage customer loyalty or brand loyalty in a trusted brand.
- To portray an image of high-quality branded motor vehicles.

Branding is also important to Toyota because:

- Branding is a form of intellectual property and such rights gives Toyota the ability to differentiate itself from the competition (one of Michael Porter's generic strategies).
- IPRs can also help to boost the book value of the company on its balance sheet, thereby making it easier for Toyota to secure external sources of finance to fund its future expansion plans.
- By creating brand recognition and brand loyalty, Toyota is able to reduce the risks involved in operating in the motor vehicle industry (which undergoes continual, and sometimes rapid, change).
- A strong brand can give Toyota greater market standing, thereby allowing it to charge relatively higher prices for its vehicles. This will improve the profit margins made on the cars that are sold.
- Research has shown that purchasing habits of customers are affected by branding and not just prices. In some cases, the brand is considered more important than the price.

However, there is more to a product than the brand, such as the quality and price of the product. The priority for some customers is cars that are fuel efficient and reliable, for example. They will also want cars that are well designed and aesthetically pleasing. Moreover, what makes a brand successful in one country does

not necessarily mean the same formula will work in another country. Nevertheless, globalization has led to converging consumer tastes, much to the delight of multinationals such as Toyota.

Award 1–2 marks if the answer is vague/generalized. The answer might be presented in a list-like format, with minimal if any detail.

Award 3–4 marks if the answer considers the role and/or importance of branding, but lacks detail.

Award 5–6 marks if there is an examination of the role **and** importance of branding for companies such as Toyota. Some application is shown.

Award 7–8 marks if the discussion considers both the role **and** the importance of branding for companies such as Toyota. There is proficient use of business management terminology and appropriate use of examples. There is also evidence of critical thinking.

Question 4.5.5 Coca-Cola

(a) A brand name is of huge importance to Coca-Cola because:

- It allows the customer to recognize the product and to distinguish it from others, e.g. Coke versus Pepsi.
- A well-recognized and protected brand name allows the business to enjoy customer brand loyalty whilst reducing the risk of 'me too' brands from taking away its market share.
- Brand names are a form of promotion. It can help to give Coca-Cola brand exposure through activities such as sponsoring major sporting events.

Award 1–2 marks if the answer is generalized and lacks detail/is incomplete.

Award 3 marks if there is a good explanation of why branding is important to companies such as Coca-Cola, with appropriate application to the case study.

(b) A widely recognized and well-respected brand, through effective brand development, can bring about many benefits, such as the following:

- Customer perceptions of quality and reputation are largely based on branding; hence investment in developing a brand can be vital to a firm's success and ultimately its survival.
- Market standing and market power – For example, Coca-Cola invests heavily in its brand development in order to maintain its number one position in the market.
- Brand development can help to create brand preference and brand loyalty (which certainly seems to be the case for Coca-Cola); hence investing in a brand is a strategy to achieve marketing objectives such as market leadership.
- Coca-Cola's investment in its brand has ensured that brand development strategies have been successful, e.g. its product portfolio includes brands such as Coke Light, Coke Zero, Fanta and Sprite.

However, the opportunity cost of achieving status through brand development includes the following points:

- The huge costs in marketing the brand, such as through sponsoring major sporting leagues and events, e.g. the NBA, NHL, the Olympics Games and the FIFA World Cup.
- Big brands can become generalized (e.g. Frisbee, Hula Hoop, Rollerblade or even Coke) and thus this defeats one major purpose of branding – product differentiation.
- The international marketing of a brand is likely to require some adjustments to the marketing plan in order to adapt the brand to local tastes and cultures. Few companies and brands are able to fully exploit global marketing economies of scale.

Award 1–2 marks if the answer is generalized and lacks detail. The answer might be presented in a list-like format, with minimal explanations.

Award 3–5 marks if the analysis is sound, although there are omissions in some areas. At the lower end, the answer is unbalanced.

Award 6–7 marks if there is a well-balanced discussion of the extent to which firms should devote their time and resources for brand development. There is good use of appropriate business management terminology and examples. Evaluation has been attempted (for 6 marks) or there is clear evidence of critical thinking (for 7 marks).

Question 4.5.6 The top brands in the world

(a) Brand development is the process of strengthening and building the trademark name and perception of a brand in order to boost its sales. Companies, such as Coca-Cola, Microsoft and Toyota, continue to pour money into brand development in order to:

- maintain or improve their market share
- retain and build brand loyalty and repeat purchases
- enhance the brand image in order to attract new customers in new and existing markets
- improve chances of success when introducing new products based on brand extension
- ultimately and directly affect the future earning potential of the brand.

Award 1–2 marks if the answer shows some understanding, but lacks detail and/or examples.

Award 3–4 marks if there is a clear explanation of brand development and why firms with globally recognized brands invest heavily in such brands, despite their worldwide dominance. Appropriate business management terminology and examples have been used.

(b) Brand names can be a major determinant of the future success of a business for several reasons:

- Some customers will perceive the brand as indistinguishable from the company, e.g. Coke and Coca-Cola or iPhone and Apple.
- Major brands rely on the reputation and awareness/publicity of the trademark in order to succeed overseas (the top brands have at least 20% of their sales coming from overseas trade, according to Interbrand).
- Brand development can lead to customer/brand loyalty and this will directly affect the future earning potential of a business.
- Brand development can also lead to brand switching, which again can affect the future earning potential of a brand/business.
- Investing in a brand can make a brand so powerful that it becomes a generic brand or even a global brand, thereby leading to increased sales, market share and earning potential.
- Branding can also act as a barrier to entry, as in the case of firms such as McDonald's, Intel and Microsoft. Raising entry barriers helps to secure sales revenue, market share and future earnings.
- Brand development can also help to foster brand extension strategies thereby helping businesses, such as Coca-Cola, Google and Mercedes-Benz, to develop and launch new products under the brand name.

Award 1–2 marks if the answer is rather vague and lacks detail/substance. The answer might be presented in a list-like format without any explanations.

Award 3–5 marks if there is an examination of how a brand name might determine the future success of a business, although the answer lacks depth and/or coherence in certain areas.

Award 6–7 marks if there is a thorough examination of how a brand name might determine the future success of a business, such as those identified by Interbrand as the top brands in the world. Appropriate business management terminology, application and examples have been used effectively.

Question 4.5.7 French Connection, UK

- (a) Brand loyalty occurs when customers buy the same brand of a product time and time again. Customers are devoted to the brand because they prefer that brand over others. In this case, customers are losing their brand loyalty towards FCUK, preferring to buy clothes from rival brand labels.



Award 1 mark if there is some understanding of brand loyalty shown, although the answer might lack clarity.

Award 2 marks if brand loyalty is clearly defined, perhaps with reference to FCUK or any other appropriate example.

- (b) Brand loyalty is important to businesses, such as FCUK, for several reasons, including the following:
- Brand loyalty helps firms, such as FCUK, to maintain or even to improve their market share.
 - It allows FCUK to charge premium prices due to customer loyalty towards its products. Therefore, this improves the company's profit margins.
 - It can act as a barrier to entry in highly competitive markets such as the fashion and clothing industry. This is because brand loyalty reduces the likelihood of brand switching.
 - Brand loyalty also plays a major role in the future success of a business.

Award 1–2 marks if the explanation is generalised and lacks depth. There may be little, if any, reference to the case study.

Award 3–4 marks if the answer clearly explains why brand loyalty is important to businesses such as FCUK. Relevant examples and business management terminology are used proficiently.

Question 4.5.8 Price discrimination at theme parks

- (a) Price discrimination is a pricing strategy used by firms, such as theme parks, that charge different prices to different customers for essentially the same product.

Award 1 mark if there is some understanding of price discrimination shown, although the answer might lack clarity.

Award 2 marks if price discrimination is clearly defined, with reference to theme parks likely to be used.

- (b) Theme parks use price discrimination in a number of ways to raise revenue, including:
- Age – adults pay an admission price of \$88 whereas children pay only \$78, exploiting the higher ability of adults to pay a higher price.
 - Demographics – a family of 2 adults and 2 children pay \$305 (saving \$27) or \$230 for a family of 1 adult and 2 children (saving \$24), although the price discounts can attract more customers to visit the park.
 - Customer loyalty – adult annual pass holders start from \$275 whereas single entry adults would pay \$264 for only 3 visits (\$88 × 3). This can help to raise sales as bargain hunters buy annual passes (whereas they may not visit three times a year originally).

- Time – Theme parks might also choose to charge more during peak periods, such as the weekends or summer holidays, thus raising revenues.

Accept any reasonable response that is explained in the context of theme parks.

Award 1–2 marks for a brief answer that shows limited understanding.

Award 3–4 marks for a good answer with appropriate reference to price discrimination.

Award 5–6 marks for a detailed and justified answer of how theme parks use price discrimination to raise sales revenue.

Question 4.5.9 The price of price wars

- (a) Loss leader pricing is a pricing strategy that involves setting the price of a product below its costs of production. Supermarkets often use loss leader products in order to entice customers to buy other products with high profit margins.

Award 1 mark if there is some understanding of loss leader pricing shown, although the answer might lack clarity.

Award 2 marks if loss leader pricing is clearly defined, with the use of an example related to the case study likely to be used.

- (b) In the short run, customers are likely to benefit from the intense price cuts, e.g. lower food prices and cheaper supermarket goods. Some businesses may also see a greater than proportionate increase in their demand, following the price reductions so this will increase their sales revenues. Many businesses (especially smaller ones) will experience declining profit margins and profitability; some might even experience temporary losses due to the intense price competition.



However, in the long run, since these industries tend to be dominated by firms with market power, only the largest ones are able to sustain losses. Smaller rivals are likely to face liquidity problems or even bankruptcy. Thereafter, prices are likely to be raised (due to the lack of competition that remains) and so customers may lose out from price wars in the long run.

Award 1–2 marks for a generalized answer that lacks details of the winners and losers of a price war.

Award 3–4 marks for a good examination of the winners and losers of a price war. The answer might lack application or the use of relevant examples. Award up to 4 marks if only winners or losers are examined, or if there is no reference to the short and long run.

Award 5–6 marks for a thorough examination of the winners and losers of a price war in both the short run and the long run. There is proficient use of relevant examples and business management terminology.

- (c) Candidates might consider any two of the following non-pricing strategies (i.e. other components of the marketing mix):
- Promotion – Ethical marketing strategies, e.g. supermarkets might promote recycling or the sale of organic produce. In the modern age of environmental concern, socially responsible supermarkets are more likely to succeed. Other promotional tactics might include: aggressive television advertising, BOGOF (buy one get one free) deals, customer loyalty schemes/cards, point of sales promotion, free product samples, and the use of discount vouchers/coupons.
 - People – investing in the workforce through careful workforce planning and staff training can help to boost the morale and productivity of the workers. In turn, customers are likely to have a better experience at the supermarket, thereby improving its attractiveness and competitiveness.

- Physical environment – improving the aesthetics and physical layout of the supermarket can make the shopping experience more enjoyable for customers (who are also more likely to become loyal customers). Examples might include: a large car park, free parking for customers, bagging/packing service, and special shopping trolleys for children and/or disabled persons. However, improving the physical environment is likely to cost a huge amount of money and other supermarket chains can copy such ideas/designs/improvements quite easily.
- Place – more and more supermarkets are offering ‘free’ delivery services and offering online purchases. Both these methods help to increase the convenience for customers, thereby improving the supermarket’s competitiveness. However, there are associated set-up and running costs of enlarging the channels of distribution.

Award 1–2 marks if the answer lacks detail/is too vague. It might be presented in a list-like format, with no / little relevance to the issue in question.

Award 3–4 marks if the analysis is sound but lacks detail or substance in certain areas. Some examples are given. There is adequate use of business management terminology. Only one (appropriate) non-pricing strategy might be analysed.

Award 5–6 marks if two forms of non-price competition are analysed in the context of the supermarket industry, but without evaluation of the suitability of these in raising competitiveness.

Award 7–8 marks if there is a thorough examination of two forms of non-price competition that supermarkets might use to increase their competitiveness. The analysis is detailed and probing and there is good use of examples and business management terminology. There is a reasoned justification of both non-pricing strategies in terms of their ability to raise the competitiveness of supermarkets.

Question 4.5.10 Virgin Australia Airlines

- (a) Pricing strategies that Virgin Australia Airlines could use to enter a new market include:
- Penetration pricing – setting a low (initial) price to enter the market and then raising prices (and hence profit margins) once the airline becomes more established in the market.
 - Promotional pricing – similar to penetration pricing, the use of promotional pricing involves setting a low price to entice customers to try the airline service and to build brand awareness. It is highly suited to Virgin Australia Airlines since the technique focuses on (low) price being the most important part of the marketing mix and it is only used in this case as a short-term measure to establish market share.
 - Premium pricing and prestige pricing do not suit Virgin Australia Airlines (initially a ‘low cost’ airline) but could be used specifically by airlines that cater for the high-end traveller (such as Singapore Airline’s executive-class suites on the Airbus A380 aircraft).
 - Price leadership – it is likely that an airline entering a new market will set prices with reference to those set by the market leader(s).

Award up to 2 marks for each relevant pricing strategy that airline companies can adopt when entering a new market, up to 4 marks. Award up to 2 marks if the answer does not include reference to Virgin Australia Airlines or the airline industry.

- (b) To increase sales revenues, Virgin Australia Airlines could adopt several pricing strategies, such as:
- Cost-plus pricing – This will help the airline to ensure that prices cover the costs of production, thereby making a positive contribution towards profit. However, this pricing strategy ignores the prices set by rival airlines so this might have negative consequences on sales and profits of Virgin Australia Airlines.
 - Price discrimination – This would involve charging different prices for essentially the same service, e.g. charging higher prices to adults and those traveling during peak periods. However, there must still be consideration of other factors, such as the prices being charged by rivals and the state of the economy

(lower priced services tend to do better during a recession, for example). In addition, higher prices during peak periods are short lived as prices will fall again during off-peak periods so this will limit the extent to which airlines can raise their sales revenues. Nevertheless, given the market power of Virgin Australia Airlines (being 'Australia's second largest airline'), some form of price discrimination is highly likely to be used to raise sales revenues.

- **Penetration pricing** – This could help Virgin Australia Airlines to establish itself in an existing and perhaps highly competitive market. Once a solid customer base is secured, prices can be raised to increase sales revenues (but this will depend on the degree of customer loyalty and the number of available substitute flights). Raising prices might mean that customers switch to rival carriers such as Qantas or Singapore Airlines. In addition, if prices are set 'too' low initially, the airline could be associated with negative substandard connotations (e.g. unsafe aircraft or poor customer service) which would make future price hikes difficult to implement.
- **Psychological pricing** – Airlines are likely to use this method to affect the emotions of people in order to persuade them to buy tickets because they feel that they are receiving a bargain, e.g. \$195 might seem far more attractive than \$200 because the \$5 difference is insignificant to Virgin Australia Airlines if the subsequent effect on customer perceptions (of value for money) leads to a greater than proportional increase in sales.
- **Predatory pricing** – As Virgin Australia Airlines is such a large operator, it might choose to temporarily offer airline fares at a very low price in order to reduce the competitiveness of its rivals or to even push them out of the industry. In the medium to long-term, sales revenues are likely to increase as Virgin Australia Airlines dominates the market and raises prices to compensate for earlier losses that might have been incurred. However, such practices do not guarantee success as the amount of losses incurred could be significant if a price war is initiated. Furthermore, such anti-competitive practices would be outlawed in many countries.

In the evaluation, expect candidates to comment on other aspects of the marketing mix being important in raising revenues (e.g. the quality of the airline's customer service).

Award 1–2 marks for a vague answer that shows limited understanding.

Award 3–4 marks if the answer shows some understanding of two pricing strategies that can be used to increase sales revenue or if only one (appropriate) pricing strategy is thoroughly analysed.

Award 5–6 marks if two pricing strategies are examined in the context of the airline industry, but without any evaluation of the suitability of these policies in raising sales revenue for airlines such as Virgin Australia Airlines.

Award 7–8 marks for a thorough examination and evaluation of each of the two pricing strategies in terms of their ability to raise sales revenues in companies such as Virgin Australia Airlines.

Question 4.5.11 The entertainment industry

- (a) Above the line promotion refers to the use of the mass media to promote a business or its products. Examples include the use of television, cinema, newspapers, magazines and radio.

Award 1 mark for a limited understanding of above the line promotional strategies. Examples may be missing.

Award 2 marks for a good understanding of above the line promotional strategies. There is good use of examples and/or application of the case study material.



- (b) There are several reasons why the entertainment industry uses ATL methods of promotion, including the following:
- ATL promotion tends to get maximum exposure to existing and potential customers.
 - The entertainment industry, such as movies and music, tends to have a short life span (product life cycle) so mass advertising and promotion is needed to recoup production costs and to maximise sales revenues in the shortest possible time.
- (b) There are several reasons why the entertainment industry uses ATL methods of promotion, including the following:
- ATL promotion tends to get maximum exposure to existing and potential customers.
 - The entertainment industry, such as movies and music, tends to have a short life span (product life cycle) so mass advertising and promotion is needed to recoup production costs and to maximise sales revenues in the shortest possible time.
 - There is the threat of illegal downloading of music and movies in the entertainment industry so ATL promotion is used to gain maximum sales revenue from official distribution channels.
 - The entertainment industry caters for the mass market, so ATL promotional methods are ideal for marketing the industry.
 - BTL methods, such as packaging and direct mail, are inappropriate and not cost effective in promoting music, theatre shows, concerts and movies.

Award 1–2 marks for a generalized answer that lacks details of the reasons for using above the line methods to promote the entertainment industry.

Award 3–4 marks for a good examination of several reasons for using ATL methods to promote the entertainment industry. The answer might lack substance in areas or lack the use of relevant examples.

Award 5–6 marks for a thorough analysis of several reasons for using ATL methods to promote the entertainment industry. There is sound use of relevant business management terminology and relevant examples.

Question 4.5.12 Sponsoring the FIFA World Cup

- (a) Revenue refers to the money that a business earns from the sale of its goods and services. In this case, the organizers of the FIFA World Cup earn revenue mainly from broadcasting rights and selling tickets for the sporting tournament.

Sponsorship is a form of promotion that involves other businesses financially supporting a particular business venture or event, such as Emirates Airlines and Coca-Cola sponsoring the FIFA World Cup. In return, the sponsors expect prominent publicity at the sporting event.

Award 1–2 marks if both terms are defined, although there may be some omissions or lack of clarity. Appropriate examples/application may be missing. Award up to 2 marks if only one of the terms is accurately defined.

Award 3–4 marks if both terms are correctly defined. There is proficient use of business management terminology and relevant examples are used.

- (b) Benefits to a business that sponsors major sporting events, such as the FIFA World Cup, might include:
- Being the world's most watched sports event, there are huge marketing opportunities for the larger sponsors of the FIFA World Cup, e.g. exclusive advertising rights and exposure.
 - They can gain from global marketing economies of scale since as firms tend to market to an international audience, especially for worldwide events such as the FIFA World Cup.
 - Sponsoring the FIFA World Cup can also act as a barrier to entry, thereby increasing the market power of the successful sponsors, e.g. Adidas (versus Nike) and Coca-Cola (versus Pepsi).

- There may be positive association created by linking the brand to the (highly popular) sport, thus positioning such sponsors in a favourable manner.

Award 1–2 marks if the answer is vague and lacks explanations/substance, but some understanding is shown.

Award 3–4 marks if two benefits are considered but the answer lacks detail. At the lower end, only one benefit is examined.

Award 5–6 marks if there is a thorough examination of two appropriately applied benefits to multinational companies that sponsor events such as the FIFA World Cup.

Question 4.5.13 The Paris Motor Show

- (a) Publicity is the process of exposing and promoting a business and its products by getting media coverage without directly paying for it. The Paris Motor show, being one of the ‘top auto shows in the world’ attracts all the major news and media corporations and hence can be seen as a publicity exercise for exhibiting and promoting the cars of major motor manufacturers to a worldwide audience.

Award 1 mark if there is some understanding of publicity shown, although the answer might lack some clarity.

Award 2 marks if publicity is clearly defined. There is good use of examples and/or application of the case study material.

- (b) Trade shows (e.g. motor shows) are important for businesses such as car manufacturers for several reasons, including the following:

- Helping to promote a business and its products in order to raise awareness – in this case, motor shows could serve to promote the car manufacturers’ newly launched (or to-be-launched) range of cars.
- Directly targeting a captured audience of potential buyers – as trade shows are more focused than direct marketing, it could be a more effective way to promote the cars, rather than using above-the-line methods such as television advertising or billboard commercials.
- Creating a media ‘buzz’ for products about to be launched (getting press coverage without having to pay for such publicity).



Award 1–2 marks for a vague answer that lacks detail and/or depth. Only one reason might be provided. There may be little, if any, application to the car manufacturing industry. The answer might appear in an unexplained list-like format.

Award 3–4 marks if there are good explanations of why trade shows are important to car manufacturers to exhibit their new cars. There is relevant application of the stimulus material.

- (c) Motor shows (exhibits) are probably more cost effective and hence preferred over the use of direct mail for promoting new cars for several reasons:
- The exhibit attracts a huge number of potential buyers where direct mail would not.
 - Direct marketing includes telemarketing, sending email advertisements and direct mail to clients – all of which may be ignored by the recipients due to advertising clutter and perceived junk mail.
 - Promotional materials such as leaflets, brochures and catalogues, are less attractive than allowing potential customers to physically see and touch the real vehicles at motor shows.
 - Direct marketing focuses on one-to-one selling to gain sales, where motor shows are aimed at a much larger target market.

- Exhibiting the latest motor vehicles at these events can also promote the manufacturer's latest products without directly paying for it if there is sufficient media interest and media exposure.

Award 1–2 marks if the answer lacks detail and/or depth. Only one reason might be provided or the answer lacks substance. There may be little, if any, application to the motor industry.

Award 3–4 marks if there is a good commentary of why car manufacturers use trade shows instead of or in addition to direct marketing. At the upper end, examples of direct marketing are used and there is relevant application.

Question 4.5.14 Tiger Woods

- (a) A sponsorship deal is an agreement whereby a business provides financial assistance and resources to support an event or another organization in return for publicity and prime advertising space. An example is using celebrities, such as Tiger Woods, to endorse products from companies such as Gillette or Tag Heuer.

Award 1–2 marks if both terms are defined, although there may be some omissions or lack of clarity. Appropriate examples/application may be missing. Award up to 2 marks if only one of the terms is accurately defined.

Award 3–4 marks if both terms are correctly defined. There is proficient use of business management terminology and relevant examples are used.

- (b) The advantages in using celebrity endorsements include:
- The subsequent media publicity that might be generated can be more favourable than sponsors (such as Nike and Gatorade) could have hoped for from any commercial advertisement.
 - Celebrities can have a huge impact on the purchasing habits of their fans who aspire to be like their idols.
 - Celebrity endorsements tend to engage and even inspire the general public, whereas other forms of promotion, such as newspaper and magazine advertisements, can be passive and static.
 - For prolific stars, such as Tiger Woods, their celebrity status and pulling power are usually worth far more than the cost of their services.

The disadvantages of using celebrity endorsements include:

- Being unable to control this form of promotion because actions of the celebrity are beyond the control of the business yet reflect on the brand itself. For instance, Tiger Woods fell out of favour with several sponsors following his misdemeanours.
- High profile celebrities can overshadow the product or the brand. This might mean that customers remember the celebrity rather than the brand itself.
- Similarly, the celebrity might (accidentally or otherwise) use the products of other rival brands.

Award 1–2 marks if the answer is vague and lacks explanations/substance, but some understanding is shown.

Award 3–4 marks if only advantages or disadvantages are considered or if a balanced answer lacks detail.

Award 5–6 marks if there is a thorough examination of the advantages and disadvantages of using celebrity endorsements as part of a firm's promotional strategy. There is proficient use of business management terminology and use of appropriate examples.

Question 4.5.15 Kim Do Yi Limited

金道一跆拳道館

- (a) Promotion is important to KDY because it is a relatively small business that operates in a niche market (Korean martial arts catering for school-aged children). Since the business hires various venues to run its martial arts classes, it needs effective promotion to attract enough students to ensure that rental costs are at least covered.

Award 1 mark if there is some understanding of why promotion is important, although the answer might lack some clarity.

Award 2 marks if there is a clear understanding of why promotion is important to organizations such as KDY.

- (b) The promotional mix for KDY might include the use of:
- Online advertising, probably through a dedicated website for KDY.
 - Direct mail (flyers and posters) sent directly to primary and secondary schools in Hong Kong.
 - Advertising in leisure centres and popular clubs in Hong Kong to gain exposure and publicity.
 - Use word of mouth marketing from existing customers.
 - Social media and social networks, e.g. Facebook, Twitter and YouTube to promote KDY and to provide information on where customers should go for more information.

Award 1–2 marks for a generalised answer that lacks detail, application and/or substance.

Award 3–5 marks if relevant points are explained but not necessarily in the context of KDY. Some of the recommendations might be inappropriate to KDY. At the lower end, the answer might appear in a list-like format with little, if any, explanation.

Award 6–8 marks if there is good consideration of the recommendations being advised, which are clearly examined. The answer is written in the context of the case study, e.g. it is unlikely that KDY could afford to use ATL methods such as television advertising. At the top end, there is evidence of evaluation of the advised promotional mix.

Question 4.5.16 YouTube

- (a) Viral marketing is a promotional strategy that combines online technologies with word of mouth (WOM) techniques, usually through emails and social networks. For example, YouTube video clips are shared online by millions of bloggers and people who spread the word with their friends, perhaps in person or on their social networks such as Facebook.

Award 1 mark if there is some understanding of viral marketing shown, although the answer might lack some clarity.

Award 2 marks if viral marketing is clearly defined, with the use of an example related to the case study likely to be used.

- (b) Benefits of advertising on Internet video sharing websites, such as YouTube, include the following:

- The immense growth in Internet users and the popularity of video sharing websites makes YouTube (and others) highly attractive to marketers.



- The Internet is proving to be a significant rival to traditional above the line promotional methods such as TV and radio advertising (e.g. the younger population prefer to surf the Internet, with more than ‘6 billion hours of video clips accessed every day’).
- Video sharing websites, such as YouTube, that are innovative and interactive have a higher retention level (partly due to their huge range of archived video clips) and hence potential customers are more likely to pay attention to the online advertisements, especially if this is through peer-to-peer word of mouth and/or social networks.

Award 1–2 marks for a generalized answer that lacks details of the benefits to businesses advertising on Internet video sharing websites.

Award 3–4 marks for a good examination of the benefits to businesses advertising on Internet video sharing websites, although the answer might lack depth/substance or the use of examples.

Award 5–6 marks for a thorough examination of the benefits to businesses that choose to advertise on Internet video sharing websites, such as YouTube. There is proficient use of relevant business management terminology and examples.

Question 4.5.17 Costco

- (a) A wholesaler is a business that buys large quantities of various products directly from different manufacturers and then sells them in smaller quantities to retail customers. Costco, for example, buys huge quantities of soft drinks from several producers and then breaks the bulk to sell these to its customers (mainly families and small retailers).



Award 1 mark if there is some understanding of wholesaler shown, although the description might lack clarity.

Award 2 marks if wholesaler is clearly described, with the use of an example related to the case study likely to be used.

- (b) Benefits of using wholesalers for businesses include:
- Business customers can buy in smaller bulk from the wholesaler, thus benefit from lower expenditure (than if they had to buy from the manufacturer) and lower storage costs.
 - Manufacturers can sell their products in large volumes directly to wholesalers and thereby benefit from lower transactions costs.
 - In the case of Costco, manufacturer brands do not face much, if any, competition as the wholesaler does not usually sell different brands of the same product.

Benefits of using wholesalers for consumers (families) include:

- Convenience and choice – consumers can buy a huge range of products from the wholesaler, all under one roof.
- Relatively cheaper prices (per unit) since the wholesaler is able to pass on its savings (from economies of scale) to the consumer.

Award 1–2 marks if the answer is vague and lacks detail/explanations, but some understanding is shown.

Award 3–4 marks if the answer is partial, e.g. benefits for only businesses or consumers are considered.

Award 5–6 marks if there is a thorough examination of the benefits of wholesaling to businesses and consumers.

Question 4.5.18 7-Eleven

(a) 7-Eleven might be described in several ways, including being a:

- Conglomerate – 7-Eleven is owned by Seven & I Holdings Co (a diversified company).
- Franchise – 7-Eleven stores are run as independent franchises on an international scale.
- Chain store (or multiple retailer) – 7-Eleven has more than 50 250 stores throughout the world.
- Multinational company – 7-Eleven operates all over the world, with headquarters in Japan and USA.

Award 1 mark for a vague answer that shows some, but limited, understanding.

Award 2 marks for stating and outlining an acceptable classification of the business.

(b) Global conglomerates operate international franchises for several reasons, which include the following:

- It is a quick form of external growth/expansion, without having to incur high capital costs (and running costs) since the franchisee pays for the vast majority of the costs of the investment.
- Global conglomerates may strive for further growth so franchising can be a cost-effective option to facilitate this desire (which enhances their global presence with minimal risk).
- Since the franchisee is likely to be highly motivated and passionate about running the business, this presents a good growth opportunity for the global conglomerate with negligible risks.
- With a larger chain of franchises, the global conglomerate is better positioned to compete with its rivals.
- The global conglomerate can earn royalties (as well as the enrolment fee) from expanding as a franchise, even though it is the franchisee that runs the business on a day-to-day basis.

Award 1–2 marks if the answer is brief and lacks detail/development, but some understanding is shown. The answer might simply offer a list of possible reasons.

Award 3–4 marks if there is some examination of two or more reasons for the operation of franchises, though the answer might lack clarity or detail, and tends to be descriptive at the lower end of the mark band.

Award 5–6 marks if there is a clear and detailed examination of two or more relevant reasons why conglomerates might wish to operate international franchises. There is direct reference to the stimulus material and good use of business management terminology.

Question 4.5.19 Sacha Cosmetics

(a) Channel of distribution refers to the way(s) that a product gets from the manufacturer to the consumer. Examples include wholesaling, agents, retailers, mail order, e-commerce and vending machines.

Having an online presence means that a business has a dedicated and functional website for conducting e-commerce activities. Having a large online presence means that the business is featured on major search engines, such as Google and Yahoo!, and customers can browse and purchase products online without the need to physically visit a retail outlet.

Award 1–2 marks if the terms are defined, although there may be some omissions or a lack of clarity. Appropriate examples may be missing.

Award 3–4 marks if both terms are correctly defined, with proficient use of business management terminology and/or use of relevant examples.

- (b) The Internet can be an effective distribution channel for expanding firms (or propelling them forward) for several reasons, such as:
- Since e-commerce reduces or eliminates the need for intermediaries, it can allow a business such as *Sacha Cosmetics* to retain more of its profits.
 - Without intermediaries, the organization would have direct control over how it wants to market its products rather than giving the responsibility to (and relying on) external marketing agents who may not market the Haalal certified makeup products as desired by *Sacha Cosmetics*.
 - E-commerce tends to be more cost efficient than traditional above-the-line promotional techniques, such as advertising on television or commercial radio.
 - There is less of a need to recruit sales personnel, thereby making e-commerce a potentially cost-effective method of distribution of *Sacha Cosmetics*' makeup products.
 - Due to its convenience and flexibility, the Internet has become increasingly popular with customers, thereby making it a more desirable distribution channel for businesses.

On the other hand, the Internet has its limitations and there are other factors that can/should be used to assist a business that strives to expand. Limitations of the Internet as a distribution channel include:

- The inability of all businesses to successfully market and trade their products online, e.g. highly valuable products, such as diamonds or sports cars, are unlikely to be traded purely via the Internet. For *Sacha Cosmetics*, only repeat customers are likely to buy the firm's makeup products online.
- Many customers may still prefer to visit physical outlets, such as Walmart, to purchase products, such as makeup, so that they can see or even try out the products with the assistance of sales staff.
- Having an online presence does not necessarily make customers more likely to choose the firm's products over its competitors, simply because all businesses that have global brands now have an online presence. Hence, having an online presence does not necessarily present a business with a unique selling point.
- Online security issues – fraudulent trading on the Internet has been a major hindrance on its growth and popularity. This makes customers less inclined to make online purchases with their credit cards. This clearly limits the ability of relying on the Internet for its growth.
- On its own, having an online presence is unlikely to propel a business such as *Sacha Cosmetics*. It will need to rely on other distribution channels, including retailers (e.g. Walmart) and other marketing strategies (e.g. sponsorship and celebrity endorsements). Nevertheless, with its flexibility, convenience and international reach, the Internet has proved to be a highly successful distribution channel for many businesses, such as *Sacha Cosmetics*, operating on a global scale.

Award 1–2 marks for a generalized answer that lacks detail and substance, with limited understanding shown.

Award 3–5 marks if relevant points are explained but the answer lacks detail and/or is not written in context. There might also be an unbalanced (one-sided) argument provided. At the lower end, the answer might be presented in a list-like format with no, or little, development.

Award 6–8 marks if there is a good discussion of both the arguments for and against the Internet being an effective channel of distribution for pushing businesses forward. Examples and business management terminology are used effectively. At the upper end, there is evidence of critical thinking and evaluation of the given statement.

Question 4.5.20 Dell and Walmart

- (a) Intermediaries are people (or organizations) that act as a middle person in the chain of distribution between the producer and consumers of a product. Examples include retailers, distributors and agents. In the case study, Walmart and Sam's Club are intermediaries used by Dell Inc.

Award 1 mark if the answer shows some understanding of intermediaries, although the answer might lack clarity.

Award 2 marks if intermediaries is clearly defined, with the use of an example related to the case study likely to be used.

(b) Advantages to Walmart establishing a deal to distribute Dell computers include:

- Broadening its product range to cater for customers of mass market products (personal computers and related accessories).
- The contribution per product (Dell computers in this case) is relatively high in comparison to other products sold by Walmart (such as groceries) so this represents higher sales revenue per square foot of floor space at Walmart stores.
- Increased customer choice (of products) can also help to secure competitive advantages for Walmart.

Award 1–2 marks if the answer explains one advantage in detail or if two advantages are vaguely explained. Appropriate examples/application might be missing.

Award 3–4 marks for clearly explaining two advantages to Walmart in establishing a deal with *Dell Inc.* Appropriate business management terminology and examples related to the case study are used.

(c) Dell Inc. decided to move away from direct distribution and use intermediation instead. Reasons for such a decision could include:

- Wholesalers, such as Walmart and Sam's Club, have better access to customers (this is especially the case in the USA as Walmart is the largest retailer)
- Dell Inc. is likely to receive a massive number of orders for its products from wholesalers such as Sam's Club and Walmart.
- Wholesalers bear the costs of the storage, thereby freeing up space (and reducing costs) for Dell Inc.
- Broadening the channels of distribution may improve Dell's chances of competing with Lenovo and HP due to Walmart's wide distribution network and reputation of low prices.

However, drawbacks of this decision include:

- Lower profit margins and/or higher prices due to the use of intermediaries (Walmart and Sam's Club).
- Dell Inc. no longer has full and direct control of its marketing; instead the intermediaries will choose where and how to market Dell's products.
- Intermediation is being used at a time when e-commerce is becoming ever more popular as a distribution channel; perhaps Dell did not exploit such opportunities.

For full marks, the answer should include an evaluation of the decision made by Dell in the context of the arguments presented.

Award 1–2 marks for a generalized answer that lacks detail.

Award 3–5 marks if relevant points are explained with some good analysis. However, the answer might not be written in the context of Dell or it is presented as an unbalanced (one-sided) argument.

Award 6–8 marks if there is a good discussion of the advantages of Dell's decision to use intermediation, in terms of commercial and competitive advantages. There is also consideration of the limitations or drawbacks of taking such an approach. The answer shows evidence of critical thinking/evaluation.

Unit 4.6 The extended marketing mix [HL Only]

Question 4.6.1 Wallington High School for Girls

(a) Marketing is important to Wallington High School for Girls (WHSG) for several reasons, including:

- The need to attract the right kind of students to the school (there are rival schools in close proximity).
- Specific marketing is required to attract the most academically outstanding students (WHSG is a selective grammar school); thus effective marketing will prevent/reduce those unsuitable from applying.
- To attract high-caliber teaching staff to the organization.
- To inform key stakeholders (such as parents and the local community) about the achievements of the students at WHSG.
- Marketing can help to improve the school's public relations and its market standing in Surrey, the local area.
- To maintain or enhance its reputation and image, i.e. to uphold its reputation of excellence, including its 'Engineering Status' which attracts extra government funding.
- To attract donations and/or sponsorship deals to raise finance for the school.



Award 1–2 marks for a vague answer that lacks detail or if only one well-explained reason is given. There may be little, if any, application to WHSG.

Award 3–4 marks if there are good explanations of two reasons why marketing is important to WHSG. There is proficient use of business management terminology, with relevant application to WHSG.

(b) **People** are important in the marketing of schools such as WHSG. In this case, it is most likely to refer to the teachers and support staff of the school. The functions mentioned in the case study suggest that teachers and other members of staff need to portray a fitting image (such as the quality and academic qualifications of the teaching staff), in line with the organization's culture and objectives.

The physical evidence (the buildings and facilities) of a school is also important to its marketing. Parents (the customers) are unlikely to want to send their children to schools that lack sufficient facilities. Schools with adequate space for studying, ICT equipment, sports facilities and other physical resources are more likely to be marketed successfully. Indeed, the physical environment of a school can have a direct impact on customer perceptions of the quality of teaching and learning in the school.

Processes in schools are also important to their success. Procedures, such as communication links with parents and entrance exam administration, will affect the general level of customer service. The quality of delivery in teaching and learning will also obviously affect the level of customer satisfaction. Other processes might include: the school's entrance exams (for selecting academically able students), school uniform policy, extracurricular activities, information evenings for parents, charity events, music concerts and drama productions.

Award 1–2 marks for a vague answer that lacks depth/detail. There might only be consideration of one of the additional Ps in the marketing mix for WHSG.

Award 3–4 marks if there is a good analysis, although the answer might lack some depth. Award up to 4 marks if only two of the three additional Ps are covered.

Award 5–6 marks if there is an in-depth examination of how people, process and physical evidence are vital elements of the marketing mix in the marketing of WHSG. There is good use of the case study and proficient use of business management terminology.

Unit 4.7 International marketing

Question 4.7.1 Colgate–Palmolive

- (a) Sales revenue refers to the money that a business earns from selling its goods and services. Colgate-Palmolive earns its sales revenues from customers who buy the company's goods, such as personal hygiene products and household cleaning products.

Award *1 mark* if there is some understanding of sales revenue, although the answer might lack clarity.

Award *2 marks* if sales revenue is clearly defined, with an example from the case study likely to be used.

- (b) There are several possible answers here; justification/reasoning is needed to award both marks. For example, Colgate toothpaste might be classified as being a consumer product or as a fast-moving-consumer good.

Award *1 mark* if there is a brief outline of the type of product that Colgate toothpaste might be classified as.

Award *2 marks* if there is a good explanation of the type of product that Colgate toothpaste might be classified as. Appropriate business management terminology is used effectively.

- (c) For many products, the brand name is crucial to its sales. Colgate and Palmolive (and other globally recognized brand names) can help the company to sell its products due to brand awareness, brand recognition and brand loyalty. Globalization has meant that international branding is increasingly important as a business strategy. On the other hand, the brand name must be carefully chosen and considered in the context of overseas markets (see Box 4.7.b and Box 4.7.e for some examples of the wrong way to go about international branding).

Evaluation of the extent to which branding is important is needed for top marks. For example, the brand itself will not usually be sufficient to secure success in overseas markets; other marketing considerations are needed such as the product's price, the effectiveness of its promotion in overseas markets and distribution channels. Non-marketing aspects might also need to be considered, such as economic, legal, political, social and ethical issues.

Award *1–2 marks* if the answer lacks detail/is too vague. It might be presented in a list-like format, with no/little relevance to the issue in question.

Award *3–5 marks* if the analysis is sound but lacks detail or substance in certain areas. Some examples are given. There is adequate use of business management terminology. Award up to *4 marks* if there is a one-sided argument (such as considering only why the name of a product is important for successful international marketing).

Award *6–8 marks* if there is a balanced examination of how important the name of a product is for international marketing. Analysis is detailed and probing and there is good use of examples and business management terminology. At the upper end, there is clear evaluation of the extent to which the name of a product, such as Colgate or Palmolive, is important for successful international marketing.

Question 4.7.2 Tesco

- (a) A market leader is a firm that dominates a particular industry, as measured by its market share. Market leaders, such as Walmart, have significant market power, coupled with customer loyalty, thus making it difficult for new entrants, such as Tesco, to compete in the market.

Award *1 mark* if there is some understanding of the term market leader, although the answer might lack clarity.

Award *2 marks* if the term market leader is clearly defined, with an example from the case study likely to be used.

- (b) Tesco's arrival in the USA market should give US customers more choice and at more competitive prices due to the increased rivalry, i.e. they can choose between Tesco and other retailers such as Walmart.

By operating on a larger scale, Tesco should be able to enjoy further benefits of economies of scale, thereby passing on some of this cost saving to US customers (via lower prices).

Tesco's presence might also benefit US customers who have improved convenience and greater access to cultural exports and related products from the UK (which might not be widely available in other US retail outlets).

Award *1–2 marks* if the answer is incomplete and/or vague. It might be presented as a list.

Award *3–4 marks* if the explanation is thorough and good examples are used in the context of Tesco entering the USA.

- (c) Tesco's overseas expansion plans could reap huge benefits, including opportunities to:
- Expand overseas as part of its growth strategy. This is important given that Tesco has already exploited and dominated the UK market.
 - Secure a share of the (larger) American market, thereby helping to boost Tesco's global sales and profit.
 - Develop Tesco's brand awareness in overseas markets and to generate brand exposure, to further improve its chances of being a market leader in overseas markets.
 - To spread risks by operating in overseas markets. Tesco is less exposed to the risks in its home country (such as an economic recession) if it has operations in other regions of the world.

However, threats to Tesco's overseas expansion plans may include consideration of the following:

- Entry into new markets requires extensive market research in order to have a detailed understanding of overseas markets, e.g. Tesco must ensure that its product range meets the anticipated needs of the USA market. Hence, issues of social and demographic changes will also need to be considered.
- With well-established rivals, such as Walmart, Tesco will need to determine its strategy on market positioning and targeting. For example, it would need to decide whether to benchmark itself against low-cost Walmart, the industry leader. By contrast, charging premium prices may prove ineffective for a new entrant in an overseas market.
- The marketing mix will need to match the needs of US customers; the nature and strategies of existing firms will influence the nature and scope of Tesco's marketing mix.
- External constraints will need to be considered and appropriate strategies devised, e.g. fluctuating exchange rates, cultural differences, international trade barriers and different legal systems. There will also be language issues with Tesco's expansion plans in France and South Korea.

Given that Tesco could benefit immensely from the significantly larger customer base if it operates overseas, the company is likely to pursue such growth strategies. Nevertheless, any plan will need to consider the potential threats and have in place appropriate strategies to deal with these.

Award *1–2 marks* for a generalized answer that lacks detail and substance.

Award 3–5 *marks* if relevant points are explained but not necessarily written in the context of Tesco. There may be an unbalanced (one-sided) argument. Evaluation is superficial or has not been attempted.

Award 6–8 *marks* if there is a good discussion of both the opportunities and threats to Tesco expanding its operations in overseas markets. At the upper end, there is clear evidence of critical thinking and evaluation of the opportunities and threats presented.

Question 4.7.3 Viya Crab Products Company

- (a) Cultural exports are the commercial transfer of ideas and values from one country to another. Canned crab meat is a popular local delicacy in Thailand and Viya Crab Products Co. has chosen to export this to overseas continents.

Award 1 *mark* if there is some understanding of cultural exports, although the answer might lack clarity or application to the case study.

Award 2 *marks* if cultural exports is clearly outlined, with application to the case study and correct use of business management terminology.

- (b) International marketing can be vital to the success of a business such as Viya Crab Products Co. The Thai company needs to consider marketing issues such as price, promotional, packaging and distribution in overseas markets. Each of these components of the marketing mix is likely to differ slightly from one country to another. The product itself may need to be slightly modified to better suit the tastes of overseas customers. This is therefore likely to cost Viya Crab Products Co. a significant amount of money.

Award 1–2 *marks* if the answer is rather generalized and lacks coherence. It might be presented in a list-like format with little, if any, explanation.

Award 3–4 *marks* if there is some analysis of the role of international marketing to a business, although the answer lacks detail/clarity in areas. At the lower end, there is no application to businesses such as Viya Crab Products Co.

Award 5–6 *marks* if there is a thorough examination of the role of international marketing to a business such as Viya Crab Products Co. Appropriate business management terminology has been used and there is good application of the stimulus material.

Question 4.7.4 Ford Motor Company

- (a) Benefits to Ford Motor Company (FMC) in using 'Focus' as a single brand name on an international level include the following:
- The benefits of mass marketing/undifferentiated marketing without having to target specific market segments in different parts of the world.
 - It reduces the chances of devising a brand name that will not work in various parts of the world, e.g. Pinto in Brazil.
 - Benefits of global marketing economies of scale since the whole market can be addressed with a single marketing campaign (at least to a greater extent than using different brand names for essentially the same vehicle in different parts of the world).
 - It enhances global brand recognition (brand awareness) of FMC's best-selling family car.
 - Perhaps the key driving force is the cost savings gained by FMC from using a single branded name (the Focus) on a global scale.

Award 1–2 marks if the answer explains one advantage in detail or if two advantages are vaguely outlined. Appropriate examples/application might be missing.

Award 3–4 marks for clearly explaining two benefits to Ford Motor Company in using Focus as a single brand name on an international level. Appropriate business management terminology and examples related to the case study are used.

(b) Justifications for FMC using different brand names in different parts of the world include:

- The benefits of glocalisation over globalization, e.g. a successful brand name in one part of the world does not necessarily mean that it will work in other parts of the world, e.g. The Ford 'Escort' or Ford 'Pinto' having sexual connotations in different parts of the world.
- Similarly, language and cultural considerations become important to the success of an international brand. A single brand name might not transpire in other (overseas) markets, e.g. 'Bobcat' or 'Lynx' might not work well outside of North America.
- Product differentiation, including the use of different brand names in different parts of the world, is an important product strategy which reaps various benefits.
- The brand name plays a vital role in the positioning of FMC and this is likely to differ in various part of the world, e.g. the popularity of Ford in the USA versus in Japan. Using different brand names can directly affect the effectiveness of any (re)positioning strategy.
- There may also be legal issues over the use of certain brand names in different parts of the world, e.g. brand names that may cause offense in certain regions of the world.

Award 1–2 marks if the answer is generalised and lacks coherence.

Award 3–4 marks if the examination is sound although lacking in detail in certain areas. There may also be a lack of examples / application at the lower end of the band.

Award 5–6 marks if there is a thorough examination of the justifications for FMC in using different brand names in different parts of the world. There is appropriate use of business management terminology and examples, written in the context of the case study.

Question 4.7.5 McDonald's

(a) International marketing is the marketing of a firm's products in foreign countries. For McDonald's, this involves marketing the company's products, such as its 'Happy Meals', for its 34 000 restaurants worldwide.

Award 1 mark if there is some understanding of international marketing, although the answer might lack clarity or application to the case study.

Award 2 marks if international marketing is clearly defined, with application to the case study likely to be used.

(b) Critics have suggested that the foods and drinks sold at McDonald's remain unhealthy and are a contributing (and perhaps growing) cause of child obesity. This may create some serious problems for McDonald's because of the potential damage to its corporate image and resulting decline in its global sales.

Award up to 2 marks for any potential problem that is clearly outlined in the context of McDonald's.

(c) Possible reasons for the growth in the global sales of McDonald's could include:

- Revamped menus (such as salads and other healthier options) thereby helping to attract a broader range of customers.

- Sustained growth through its franchise strategy means that McDonald's continues to have a greater global presence, thereby helping to raise its sales revenues.
- Changing customer perceptions of the food at McDonald's by publishing and publicizing nutritional information about its products.
- A favourable economic climate in different regions of the world, thus boosting sales revenues.

Award 1–2 marks for a vague answer that lacks depth/detail. There might be consideration of only one possible reason for the growth in the global sales of McDonald's.

Award 3–4 marks if two plausible reasons are explained, although the answer might lack some depth at the lower end. There is minimal application of the stimulus material.

Award 5–6 marks if two likely reasons for the growth in the global sales of McDonald's are examined in depth. There is good use of the stimulus material and there is proficient use of business management terminology.

(d) The extent to which the fast-food industry might be considered as being a globalized one depends on the relative strengths of the arguments put forward. On the one hand, fast food could be considered to be highly globalized as an industry because:

- The rapid expansion and presence of US restaurant chains throughout the world, such as McDonald's, Burger King, Pizza Hut and KFC, have meant that fast food is available in almost every country.
- McDonald's record global sales and revamped menus around the world also suggest that fast food is a globalized industry.
- As a cultural export, the American burger and fast-food meals are a huge earner for multinational companies from the USA.
- The most well-known fast-food multinational companies all use franchising as a method of growth, meaning that these organizations can produce and sell the same foods and drinks simultaneously in different countries.

On the other hand, the fact that even the most 'globalized' fast-food chain has to adapt its menus to local tastes suggests that the fast-food industry is not so globalized. In addition, growing public concerns over the nutritional value of fast-food meals also suggests that firms, such as McDonald's, have yet to fully exploit the benefits of globalization.

Note: students may choose to answer this question applying their knowledge to a different industry. Answers should be credited appropriately.

Award 1–3 marks for a vague and generalized answer that might appear in bullet-point form with no or little development.

Award 4–6 marks if the answer is one-sided or lacks detail in some areas. There may be minor or no reference to the case study.

Award 7–8 marks if there is an examination of the extent to which the fast-food industry might be globalized, although the answer lacks evaluation of the issue. Appropriate application has been used and there is good use of business management terminology.

Award 9–10 marks for a two-sided argument with a justified conclusion of the extent to which the fast-food industry might be considered as a globalized one. There is good application to organizations, such as McDonald's, and there is proficient use of business management terminology throughout the answer.

Unit 4.8 E-commerce

Question 4.8.1 Aggregators: Price-comparison websites

(a) Benefits of aggregator websites to customers include:

- Time saving – there is no need to use up time to compare prices of different retailers by foot or by browsing online.
- Convenience – customers can search for the best prices and deals from the comfort of their own home or office.
- Value for money – aggregators can help to ensure that customers get the best price/deal.
- Up to date information – Customers can get regular updates on the latest prices and deals via their emails or as online alerts.

Award 1–2 marks if the answer explains one benefit in detail or if two benefits are vaguely explained. Appropriate examples/application might be missing.

Award 3–4 marks for clearly explaining two benefits of aggregators (price comparison websites) to customers. Appropriate business management terminology and relevant examples are used.

(b) Aggregators can pose a threat to e-commerce businesses because:

- They create price transparency for customers and hence e-tailers will need to ensure that they are price competitive (perhaps by lowering prices and hence reducing their profit margins).
- Customers have the convenience of having instant price comparisons without leaving their home or office. Again, this forces e-tailers to be more price competitive.
- Firms that are unable to sustain lower profit margins due to the fierce online competition created by price aggregators may be forced out of business.

However, price itself is only one component of the marketing mix. Customers do not buy a product simply because of the (lower) price – this is especially the case for premium brands and specialist products. Furthermore, aggregators are not 100% reliable or accurate – as suggested in the case study. Finally, for online businesses that thrive on price competition, price aggregators can present opportunities (rather than threats) to e-commerce.

Award 1–2 marks for a generalized answer that is descriptive and/or lacks substance.

Award 3–4 marks if there is some examination of how e-commerce businesses are affected by price aggregators, although the answer is unbalanced and perhaps lacking in detail.

Award 5–6 marks if there is a thorough examination of price aggregators being a threat to e-commerce businesses, with consideration of the opportunities that also exist. There is proficient use of appropriate business management terminology and examples.

Question 4.8.2 Amazon.com

(a) Sales turnover refers to the funds received from selling goods and services, e.g. Amazon selling more than \$25 billion worth of goods. Amazon earns its sales revenues from customers who buy the company's goods, such as books, music and clothing.

After-sales service is a sales management technique that provides post-sale customer care. Examples include guarantees, product exchange, refunds and support services. Amazon provides different delivery services, such as shipping or air freight, and a tracking system (to check on the progress of the packages being delivered to customers).

Award 1–2 marks if the terms are defined, although there may be some omissions or a lack of clarity. Award up to 2 marks if only one of the terms is clearly defined.

Award 3–4 marks if both terms are correctly defined. There is proficient use of business management terminology and relevant examples are used.

(b) Amazon.com's strategy for success in e-commerce focused on:

- Wide product mix to cater for a mass target audience, with operations catering for customers in 220 countries around the world.
- Exploiting the cost advantages that e-commerce brings in order to offer customers value for money, e.g. Amazon does not need to be located in central business districts thereby avoiding high rents.
- Taking advantage of e-commerce to provide customers with a convenient and flexible shopping experience, with plenty of choice, from the convenience of their home or office.
- Providing after-sales services to enhance customer satisfaction and customer loyalty, resulting in 'customers having trust and assurance in the brand'.

Collectively, these helped to ensure Amazon raised its market share and created customer loyalty.

Award 1–2 marks if there is a generalised answer, which lacks depth and/or substance. There is no application shown and the answer might be no more than a list of possible strategies used by Amazon.

Award 3–4 marks for a detailed explanation of at least two strategies used by Amazon to succeed in e-commerce. There is good use of business management terminology and reference made to the case study.

(c) It is debatable whether Amazon.com can repeat its success in selling products other than books because:

- Whilst books may be highly suited to e-commerce, other products, such as furniture and jewellery, might be better suited to retail outlets where customers can inspect these (relatively expensive) items in more detail.
- Certain items, such as food and clothing, may not be as successful as books when sold online in overseas markets.
- Diversification (Ansoff's matrix) is a high-risk strategy and different marketing mixes might be required for the diverse range of products sold by Amazon.
- Amazon could lose focus and experience diseconomies of scale due to the vast size of its operations.

However, Amazon's global brand reputation, brand recognition and customer loyalty help to reduce the risks of its diversification and expansion. Hence, Amazon's market dominance makes it probable that the company could accomplish its growth objectives. Nevertheless, due to the diverse nature of the products being sold by Amazon across 220 different countries, it may not be equally successful in all aspects of its operations.

Award 1–2 marks for a generalized answer that lacks detail or is presented in a list with little or no explanation.

Award 3–5 marks if there is sufficient analysis although the answer might lack depth in some areas. For 5 marks, the answer considers both sides of the argument, but lacks evaluation.

Award 6–7 marks if there is a balanced debate that examines both sides of the argument. Appropriate business management terminology and examples are used, with clear evidence of critical thinking and evaluation (of whether Amazon.com can be equally successful in selling a much broader product range as it has been with selling books online).

Question 4.8.3 Apple iTunes

(a) Possible reasons for the increase in demand for Apple iTunes include:

- The increased popularity of the Internet and e-commerce makes iTunes a more viable option for customers from around the globe.
- Word-of-mouth and peer pressure, especially amongst teenagers.
- The flexibility in being able to hand-pick songs without having to pay for a whole album.
- Added value options, such as music videos and games, have increased Apple's customer base.
- The huge increase in ownership of hand-held devices, such as the iPhone and iPad, has increased demand for Apps (applications) at the iTunes store.

Award 1–2 marks if the answer describes one reason in detail or if two reasons are vaguely described. Appropriate examples/application might be missing.

Award 3–4 marks for clearly describing two possible reasons for the huge increase in demand for iTunes products. Appropriate business management terminology and examples related to the case study are used.

(b) On the one hand, e-commerce has revolutionized the way in which music and movies are bought:

- Due to relatively lower operation costs, e-commerce has led to more competitive prices for music and movies bought online.
- As a channel of distribution, the Internet has allowed a greater number of customers from all over the world to make online purchases of movies and music (The Open University has more than 20 million iTunes downloads).
- Greater flexibility and choice as consumers can hand-pick songs (iTunes beating retailers, such as HMV or Walmart, in the sale of music).

These reasons have encouraged more people to purchase movies and music via the Internet, hence reducing the problem/threat of illegal downloads.

On the other hand, e-commerce and the Internet have provided many opportunities for people to illegally download movies and music through P2P file sharing software such as BitTorrent. Open access websites, such as YouTube, also present huge threats for copyright holders. Hence, whilst e-tailers, such as iTunes, provide a relatively new purchasing experience for online shoppers, others allow (or even encourage) people to access music and movies without directly paying for them.

Award 1–3 marks for a generalized answer that lacks detail or is presented in a list-like manner.

Award 4–6 marks if there is some examination but the answer lacks a balanced argument. At the lower end, there is little if any application to the music and movie industries.

Award 7–8 marks for a thorough discussion that considers both the case for and against e-commerce in dealing with problems such as copyright violation and piracy in the movie and music industries. There are appropriate examples used. At the top end, the candidate addresses the extent to which e-commerce has prevented or saved the music and movie industries.

Question 4.8.4 HMV

(a) B2C businesses provide goods and services to the general public, i.e. consumers. HMV sells music to private individuals and can therefore be classed as a B2C business.

Award 1 mark if some understanding of B2C business is shown, although the answer might lack clarity or application to HMV.

Award 2 marks if B2C business is clearly outlined with reference to HMV.

(b) Reasons for more customers opting to buy music and books online include:

- the convenience of online retailing
- cheaper prices online
- ability to 'shop' for the best bargains without having to visit various retail outlets
- the ability of customers to buy just the tunes/music they want rather than whole music albums
- improved online security has also attracted many buyers to switch to e-commerce.



Award 1–2 marks if the explanation is incomplete and/or vague. It might be presented as an unexplained list of possible reasons.

Award 3–4 marks if the explanation is thorough, written in the context of HMV. There is proficient use of business management terminology throughout the answer.

(c) Any other strategy that is fully explained would warrant full marks. Examples of possible answers include:

- HMV marketing its own website, with a greater emphasis on selling music and DVD products online.
- Allowing customers to pay by more convenient methods, including improved online security.
- Offer customer loyalty schemes.

Award 1–2 marks if the suggestion is incomplete and/or vague. Application is weak or missing.

Award 3–4 marks if the suggestion is thoroughly explained and is written in the context of HMV.

Question 4.8.5 Christmas online shopping

(a) Opportunities that e-commerce provides for businesses include:

- The Internet is an increasingly popular channel of distribution for many businesses, thereby generating a potentially much larger customer base (such as parents who do their Christmas shopping online).
- Having an online presence can improve the competitiveness of a business as it creates an extra distribution channel and added convenience for customers (especially during the busy Christmas trading period).
- E-commerce businesses do not have to be located in busy central business districts, thereby saving themselves a huge amount of rent and related costs.

Award 1–2 marks if the answer describes one opportunity of e-commerce in detail or if two opportunities are vaguely described. Appropriate examples/application might be missing.

Award 3–4 marks for clearly describing two opportunities that e-commerce presents for businesses. Appropriate business management terminology and relevant examples are used.

(b) The possible advantages of the Internet as a channel of distribution for consumers include:

- More choice arises due to the additional competition created by e-tailers.
- The intensified competition is also likely to lead to lower prices for the consumer (at least in the short run).
- Improved convenience for Christmas shoppers who can purchase products online without the hassle of large crowds and long queuing times.
- Greater price transparency occurs because customers can compare prices easily from the comfort of their own office or home.

- Customers can benefit from improved access to knowledge and information on a wide range of products, e.g. the popular consumer electronic gadgets, clothing and children's toys being sold at Christmas time.

Award 1–2 marks if the explanation is incomplete and/or vague. It might be presented as a list of possible benefits without much, if any, substance.

Award 3–4 marks if the explanation is thorough, and is written in the context of the case study.

Question 4.8.6 Online banking fraud

(a) Limitations of e-commerce for the banking sector include:

- Online fraud cannot be prevented yet this proves to be costly to banks.
- Online fraud still deters many potential customers from paying online.
- E-commerce does not cater well for customers who are uncomfortable or unfamiliar with Internet technologies.

Award 1–2 marks if the answer explains one limitation in detail or two limitations are vaguely outlined. Appropriate examples/application to banks might be missing.

Award 3–4 marks for clearly outlining two limitations of e-commerce to organizations such as banks. Appropriate business management terminology and examples related to the case study are used.

(b) Customers can benefit from online banking because:

- There is added convenience – customers can use banking services even when the physical banks are closed, all from the comfort of their home/office and without the hassles of queuing at a bank.
- Internet technologies allow speedy transactions to be carried out, 24/7 and across the globe with ever-increasing safety mechanisms for online banking.
- E-commerce can cut the costs of banking quite substantially, thereby possibly leading to lower fees and bank charges to customers.

However, there are also potential pitfalls:

- Online banking fraud is colossal in many parts of the world.
- Customers can be misled or simply made to misinterpret matters because of the bogus banking websites found online.

Award 1–3 marks if the answer is generalized and lacks coherence. There are examples used but application is superficial or missing.

Award 4–5 marks if the analysis is good, although some details might be missing. Award up to 4 marks if only the benefits or drawbacks are considered. Award 5 marks if there is an attempt to apply the answer to the banking and/or financial services sector.

Award 6–7 marks for a balanced discussion with good use of business management terminology, examples and application of the stimulus material. The answer addresses the extent to which e-commerce benefits customers of banking and there is evidence of critical thinking.

ANSWERS

Unit 5.1 The role of operations management

Question 5.1.1 Plastic carrier bag levy

- (a) ‘Ecological sustainability’ is the term used to describe the capacity of the natural environment to meet the demands of the current generation without endangering the ability of future generations to meet their own needs. The use of plastic carriers bags, for example, is a threat to ecological sustainability.

Award 1 mark for a vague definition that shows some understanding of ecological sustainability.

Award 2 marks for a clear definition of ecological sustainability, with relevant examples used.

- (b) The use of taxes can be beneficial in striving to achieve environmental sustainability because:
- Taxes can help to reduce Hong Kong citizens using 30 million non-biodegradable plastic carrier bags every day; clearly not sustainable given HK’s population of just 7 million (the equivalent of more than four plastic carrier bags per person per day). This was clearly effective as demand fell by 85% within the first couple of days.
 - Taxes are a fair way to make polluters pay; those who cause the most environmental damage by using plastic carrier bags are taxed more.
 - The environmental taxes help to promote intergenerational equity, i.e. taxing the use of non-biodegradable plastic carrier bags today means a better chance of protecting land and other environments for future generations.
 - Taxes can reduce demand rapidly (85% in the case of Hong Kong) to slow down the depletion of natural resources such as to protect landfill sites.
 - Taxes encourage alternative methods to be used such as the use of reusable fabric carrier bags. Environmental sustainability requires output to be more environmentally friendly.

However, there are also limitations of using taxation to achieve environmental sustainability, such as:

- Environmental sustainability requires more than just taxation, which acts as a cure rather than prevention (of environmental damage). For example, government subsidies for green technologies might be a better alternative to taxes.
- Targeting businesses might also be more effective for environmental sustainability. For example, making businesses accountable for their ecological footprint as part of their corporate social responsibility and/or environmental audits.
- Education about recycling, reducing, and reusing (the 3 Rs), preservation of scarce resources and conservation of the planet’s finite resources might also be more effective in the long run. After all, it is debateable whether a HK\$0.5 tax has a sustainable impact on reducing environmental damage caused by overuse of non-biodegradable plastic carrier bags.

Award 1–3 marks for a generalized answer that lacks detail or is presented in a list-like manner.

Award 4–6 marks if there is some examination but the answer lacks a balanced argument. At the lower end, there is little if any application to the stimulus material in the case study. For 6 marks there must be an attempt to justify the argument presented.

Award 7–8 marks for a thorough discussion that considers both the case for and against using taxes to achieve environmental sustainability. There is evidence of critical thinking with a full justification regarding the use of taxes to achieve environmental sustainability.

Unit 5.2 Production methods

Question 5.2.1 Bristol Cars Ltd.

- (a) Ltd. stands for ‘private limited company’, i.e. a business with limited liability and its shares being issued only to family and friends with the approval of the board of directors.

Note, however, that in some countries, such as Australia and Hong Kong, publicly listed companies can also carry ‘Ltd’ after their name (although Bristol Cars Ltd. is a UK-based company).



Award 1 mark if some understanding of ‘Ltd’ is shown, although the answer might lack clarity.

Award 2 marks if ‘Ltd’ is clearly outlined with reference to Bristol Cars Ltd.

- (b) Bristol Cars Ltd. create unique and individual cars, so this suggests the firm uses job production. Other reasons for this include:

- Slow lead times in production (only 100 are made each year)
- Quality placed above quantity
- Customization is more important than standardization
- Long working capital cycle
- Bristol Car Ltd. uses highly skilled mechanics and engineers who work on one car at a time
- Premium prices charged.



Note: there is no need to explain the advantages and disadvantages of job production in this question.

Award 1–2 marks if job production is identified and the description shows some understanding.

Award 3–4 marks if job production is identified and the description shows a clear understanding, with appropriate use of business management terminology. There is good use of the stimulus material in the case study.

- (c) Consequences can be positive, negative or both. Examples include:
- i. High prices can be charged for the cars; Prestigious corporate image; Benefits of specialization and niche markets; High profit margins; High cost of hiring skilled labour force; Sales limited to around 100 vehicles per year, i.e. small customer base; High costs of production; Limited, if any, economies of scale; Long working capital cycle.
 - ii. Motivated workforce; High productivity; High salaries; Job satisfaction from challenging work; more involved in decision-making; Limited sales and profits may hinder future pay increments.
 - iii. Limited channels of distribution; Expensive (luxury perfection!); Long waiting time (from placing the order to getting the car); Quality customer service/satisfaction; Feeling of pride/prestige in owning a prestigious and unique car.

For each part of the question:

Award 1 mark for a vague answer that lacks depth and clarity.

Award 2–3 marks for an explained response that examines the impact of job production on each stakeholder (Bristol Cars Ltd., employees and customers). There is effective use of business management terminology and examples are used appropriately.

Question 5.2.2

- (a) Navy battleships – Job production will be most suitable as navy battleships are highly expensive and sophisticated products with unique features and capabilities. The infrequency of orders and the huge costs of production also make it difficult to use batch production.
- (b) Wedding cakes – Job production or batch production could be used. In many cases, clients may demand a highly unique wedding cake (job production) which is made to order. In other cases, clients may be given a choice from several different cakes on offer (batch production). Customers might also buy a batch-produced cake but have finishing touches to make the cake more unique for the wedding.
- (c) Cookies (biscuits) – Batch production is highly suitable as each group of cookies/biscuits is standardized but the product can be modified slightly to produce different batches of these, e.g. plain, raisins or chocolate chip flavour.
- (d) Samsung smartphones – Large manufacturers, such as Samsung and Apple, may outsource the production of their smartphones to manufacturers such as Foxconn. The outsourced firm uses mass production, especially as the global market for smartphones continues to rise. Only slight variations to the production process are needed for different versions of the smartphone (e.g. 16 GB or 64 GB models), but there is a large enough market for each of these to mass produce the product.
- (e) Evian bottled mineral water – Mass/Line/Continuous production is most suitable given that Evian can sell the standardized product to mass markets across the world. Again, there might be some variations such as the various sizes of bottles.



For each question, award *1 mark* for a vague explanation that shows some logic and understanding. Award *2 marks* for an answer that shows a clear understanding of the most appropriate method of production for the product, backed by sound reasoning.

Question 5.2.3

- (a) The components of Dell personal computers (such as LCD monitors, CPUs, DVD drives and keyboards) are all mass produced (some parts might be manufactured using cell production). However, since Dell customers can ‘pick and mix’ their own components, there is an element of job production because each client can have their PC custom built and personally delivered directly.
- (b) Large supermarket chains, such as Carrefour, Walmart and Tesco, are likely to have their own bakery departments that bake products such as birthday cakes. Within each store, these are likely to be batch produced. However, there will be some variation to offer the customer variety and individuality. If supermarkets distribute their cakes to individual stores, then the cakes are likely to be mass produced on a production line.

For each question, award up to *3 marks* as follows:

Award *1 mark* for a limited response that shows some understanding.

Award *2 marks* for a brief explanation of why it might be difficult to categorize the production method used to make the product. The explanation might lack application and/or clarity.

Award 3 marks for a detailed explanation of why it might not be easy to categorize the production method used to make the product in question. There is proficient use of business management terminology and good application shown.

Unit 5.3 Lean production and quality management [HL only]

Question 5.1.3 Subway

- (a) Franchise refers to the growth strategy that involves a franchisor selling the right to others (the franchisees) to operate using its name. *Subway* (the franchisor) allows individuals and other businesses to buy a franchise in its business, for which it receives a fee and royalty payments from the buyer (the franchisee).

Award 1 mark if there is some understanding of franchise shown, although the answer might lack depth/clarity.

Award 2 marks if franchise is clearly defined, with the use of an example related to the case study likely to be used.

- (b) Quality management is the operational process concerned with controlling business activities to ensure that products are fit for their purpose. The quality of a product is seen as an overall package, from the production and purchase of the product to its use and beyond (after-sales care). Quality management is important to a global franchise, such as Subway, for several reasons, including the following:

- Quality management can raise the international competitiveness of Subway.
- It can affect Subway's reputation in a favourable way.
- Quality management reduces/eliminates the time and money to correct mistakes.
- It can improve staff motivation as employees feel proud of working for a reputable company.
- It can improve the attractiveness of Subway by overseeing quality issues, thereby aiding its global growth strategy.
- Overall, quality management can ensure that Subway remains profitable in the long run.



Award 1–2 marks for a vague answer that lacks detail and/or depth. There may be little, if any, application to Subway. The answer might appear in a list-like format without any explanations.

Award 3–4 marks if there is a good explanation of why quality management is of importance to Subway as a franchisor. There is proficient use of business management terminology and relevant application to Subway.

- (c) Subway's rapid expansion plans can create their own problems for quality management. These might include:
- Difficulties related to the coordination of franchises all across the world, including communication problems and differences in regional cultures and business etiquette.
 - Franchising also requires Subway franchisors across the globe to take responsibility for quality management – an extremely difficult task to oversee and manage.
 - Staff training (to ensure consistency in quality management) will cost time and money, thereby having a possible impact on Subway's liquidity.
 - With so many stores and operations in 105 countries, Subway may find it increasingly difficult to respond to customer complaints and/or suggestions.

Award 1–2 marks for a generalized answer that is descriptive or lacks substance. The answer might appear in an unexplained list-like format.

Award 3–4 marks if there is an examination of how continued/rapid expansion can cause problems for quality management, although the answer might lack depth in some areas. For 4 marks there is some application of the stimulus material in the case study.

Award 5–6 marks for a thorough examination of the potential problems for quality management as Subway continues to grow through franchising on an international scale. There is proficient use of appropriate business management terminology, with good reference to the case study.

Question 5.3.2 Nissan

- (a) Economies of scale are the cost savings (lower average costs) enjoyed by a business due to greater levels of output. For example, Nissan uses the same components across a range of its car models, e.g. windscreen wipers, mirrors, light bulbs, seat belts and tyres. This means Nissan can mass produce or bulk purchase these components, thus reducing its average costs of production.

Award 1 mark if there is some understanding of ‘economies of scope’ shown, although the answer might lack clarity.

Award 2 marks if ‘economies of scope’ is clearly defined, with the use of an example related to the case study likely to be used.

- (b) A major product recall due to defective products can be costly to Nissan because:
- It suggests that the quality of Nissan is poor and this would negatively impact on its global corporate image. This could have an irrevocable effect if Nissan’s quality standards drop due to defective products in the market.
 - Substandard quality can make it increasingly difficult for Nissan to remain competitive against rivals, such as Honda and Toyota, on an international level.
 - There are likely to be concerns over public safety if the product recall is so high, i.e. hundreds of thousands of faulty or dangerous cars in this case.
 - It can cost firms more money to rework the defective products (more than a million Nissan cars) than if things had been done correctly first time round, i.e. reworking negatively affects the cash flow position of the firm. At 15 minutes per car, this works out at 210 250 hours (or more than 8760 continuous days 24/7) of reworking for Nissan.

Award 1–2 marks for a generalized answer that lacks details. Some understanding is shown, although the answer might appear in an unexplained list-like format.

Award 3–4 marks for an examination of how a major product recall can be costly to businesses, although the answer might lack substance in some areas. For 4 marks, there is application to the stimulus material in the case study.

Award 5–6 marks for a thorough examination of how a major product recall can be costly to businesses such as Nissan. There is sound use of relevant examples and business management terminology.

Question 5.3.3 McDonald’s “100% Quality Food”

- (a) Quality assurance (QA) is the philosophy and management process that entails all employees within an organization striving to achieve the agreed quality standards. To do so requires systematic processes such as lean production, kaizen and zero defects. This enables firms, such as McDonald’s, to inform and reassure its customers that the products meet certain quality standards such as ISO 9000.

Award 1 mark if there is some understanding of quality assurance, but the answer might lack depth/clarity.

Award 2 marks if quality assurance is clearly outlined, with the use of an example related to the case study likely to be used.

- (b) Quality management (QM), be it quality control or quality assurance, is important to MNCs, such as McDonald's, for several reasons, including the following:
- McDonald's will want to keep quality standards at a consistent level across all its franchises throughout the world to maintain its corporate reputation.
 - QM can also help to control McDonald's costs; poor QM by contrast might lead to customer complaints and perhaps litigation issues over food, hygiene and safety issues.
 - QM is also important for McDonald's stock control system, especially as it has large scale operations throughout the world.
 - QM can ensure that McDonald's maintains its status as the world's leading restaurant chain.
 - Quality can act as a form of product differentiation in highly competitive markets such as the fast-food industry.
 - QM is used to inform and assure customers that 'fresh' and 'quality' ingredients are used.
 - QM leads to the greater likelihood of McDonald's expanding/growing as a MNC franchise.
 - Ultimately, effective QM can help McDonald's to maintain its international competitiveness and therefore improve its profitability.

Award 1–2 marks for a generalized answer that lacks details. Some understanding is shown, although the answer might appear in a list-like format.

Award 3–4 marks for an analysis of the importance of quality management for multinationals. The answer might lack substance or the use of applied examples.

Award 5–6 marks for a thorough examination of the importance of quality management for multinationals such as McDonald's. There is sound use of relevant examples and terminology.

Question 5.3.4 Mercedes-Benz

- (a) Benchmark refers to a business, such as Mercedes-Benz, comparing its products, operations and processes to those used by others in the same industry, especially dominant market players such as Lexus, Audi or BMW. It then becomes a point of reference or yardstick for the business to match or exceed. The purpose is to allow the business to emulate best practice (excellent performance), for example by establishing the standards for quality improvements.



Award 1 mark if there is some understanding of benchmark shown, although the answer might lack depth/clarity.

Award 2 marks if benchmark is clearly defined, with the use of an example related to the case study likely to be used.

- (b) Quality Assurance (QA) can be defined as the management process of guaranteeing (assuring) the consumer of a product's quality. To some extent, benchmarking can help businesses, such as Mercedes-Benz, to achieve quality assurance because:
- It informs customers that Mercedes-Benz vehicles have been built to (at least) the benchmarked specification in the industry, i.e. certain quality standards have been met.
 - Emulating best practice (excellent performance) in the industry can help Mercedes-Benz to improve its operational efficiency, thereby aiding the achievement of QA.

- Similarly, strategic benchmarking can be used to benchmark the overall performance of firms such as Mercedes-Benz.
- Dealing with quality issues and problems can be quite fast and effective, relative to simple guesswork, if external benchmarking is used.
- Benchmarking compares customer perceptions of quality and therefore this should help Mercedes-Benz to take appropriate action to meet its customers' needs and wants, e.g. by examining the relative strengths of the BMW, Audi and Lexus brands.

However, benchmarking alone might not be sufficient for firms, such as Mercedes-Benz, to achieve QA because:

- The cost and time implications of collecting relevant and up-to-date information from other firms (competitors) in the industry can be a major constraint to effective benchmarking. This will clearly hinder the ability of Mercedes-Benz to achieve quality assurance.
- Relying on best practice benchmarking (BPB) can discourage initiative and innovative ideas in the motor industry and hence this may hinder QA.
- Relying on replicating the ideas and practices of other firms by BPB might be seen as second best (in the eyes of the customer), i.e. products might be seen as 'me too' products with no distinctive selling point and hence lacking any QA.
- Sufficient time and funding must be made available to implement the findings from BPB. Hence, benchmarking itself might not be sufficient for a firm such as Mercedes-Benz to achieve QA.
- Like the concepts of Kaizen and TQM, benchmarking cannot be a one-off exercise if Mercedes-Benz is to achieve quality assurance. To be effective, BPB has to be a continuous process that involves the commitment and involvement of every employee and with the financial backing of the employer.
- QA only works if each and every member of the organization, irrespective of their rank or role, is fully committed to quality assurance. Organizational culture, rather than benchmarking itself, may therefore have a much greater impact on the ability of Mercedes-Benz to achieve QA.

Award 1–2 marks if the answer is generalized and lacks substance/coherence. The answer might appear in a list-like format.

Award 3–4 marks if the answer is relevant but unbalanced and lacks detail and/or application.

Award 5–6 marks if the discussion is sound and application has been attempted. However, there is little, if any, evidence of critical thinking/evaluation.

Award 7–8 marks if the discussion is thorough and well balanced. There is good use of appropriate business management terminology and relevant examples are used in context of the case study. There is clear evidence of critical thinking. For full marks, the answer considers the extent to which benchmarking can help businesses, such as Mercedes-Benz, to achieve quality assurance.

Question 5.3.5 Durex

- (a) 0.03×300 million units = 9 million units per year = approximately 3% defect rate.

Award 1 mark for the correct answer without any working out shown.

Award 2 marks for the calculation with full working out shown.

- (b) A clear definition of Quality Assurance should be stated, e.g. the management process of guaranteeing (assuring) the consumer of a product's quality. This guarantee can be secured by meeting international quality standards such as the ISO 9000. QA is important to Reckitt Benckiser, producers of Durex, for several reasons, including the following:

- Condoms must be fit for their purpose, perhaps more so than for most products (for health and safety issues and to prevent unwanted pregnancies, for example).
- QA aims to reduce/eliminate defects thereby giving customers a sense of security (peace of mind) in purchasing the product.
- Quality assurance will undoubtedly affect the reputation and corporate image of Durex.
- QA can help Reckitt Benckiser to maintain customer loyalty and prevent brand switching (Durex has 25% market share only).
- QA can be a form of product differentiation for Reckitt Benckiser, thereby improving its competitiveness.
- QA helps to reduce wastage, therefore raising Reckitt Benckiser's profit margins.

Award 1–2 marks if the explanation is incomplete and/or vague. It might be presented as a list of reasons without any application.

Award 3–4 marks if the explanation is thorough and good examples are used in the context of Durex.

- (c) TQM is the belief in and process of removing wastage and inefficiencies in all forms of business activities, requiring the commitment of everyone in the organization to achieve quality standards. Features of TQM that might help Durex to reduce its 3% defect rate include:
- TQM aims for zero defects – perhaps a defect rate of 3% (or 9m condoms) is rather too high for this type of product.
 - Testing – tests, such as the artificial ageing of condoms or the water/air pressure tests, are key aspects of TQM.
 - 'Right first time' culture – helps to reduce defect rates.
 - TQM involves the workforce (e.g. motivation, empowerment and responsibility) striving for reduced or zero defects.
 - Since all workers are responsible for quality control and QA, substandard products are less likely to occur.
 - The role of CAD/CAM/automation in reducing defect rates could also be outlined.

Award 1–2 marks if there is an understanding of total quality management shown. The commentary might lack application, i.e. how TQM could help Reckitt Benckiser to reduce defect rates.

Award 3–4 marks for an applied commentary that demonstrates a clear understanding of how TQM might help Reckitt Benckiser to reduce its defect rate of Durex products. Relevant examples and business management terminology have been used.

Question 5.3.6 The BSI Kitemark

- (a) A regulatory body for ensuring quality standards, such as the BSI, has several key roles or functions, including:

- Setting/establishing the quality standards within an industry or country/region.
- Promoting quality awareness within an industry or country/region.
- Recognising and rewarding quality achievements.
- Ensuring that products undergo rigorous and regular testing by independent agents.
- Influencing government legislation surrounding quality assurance issues (regulatory bodies are often non-governmental organizations).



Award *1–2 marks* if the answer is rather vague and lacks detailed examination. The answer might lack depth, perhaps by only looking at one function/role of regulatory bodies such as the BSI.

Award *3–4 marks* if at least two functions/roles are examined in context, with appropriate development and use of business management terminology.

- (b) Advantages to organizations that hold an external quality assurance certificate, such as the BSI Kitemark, include the following:
- Helps to inform and assure customers that the product is of high quality, i.e. products have been manufactured to a high level of quality and are fit for their advertised purpose. This can give the bearer of such certificates a competitive edge over their rivals that have not been awarded (met) such quality standards.
 - Most customers recognize QA certification, such as the ISO (or the Kitemark in the UK), as a sign of high quality.
 - Customers would be more prepared to pay higher prices for products that carry quality assurance certificates such as the BSI Kitemark.
 - They can also help to promote quality awareness within an organization, thereby fostering a TQC within the business.
 - Since QA certification is given in recognition of quality achievements, there can be positive motivational effects on the workforce.
 - High quality organizations attract high calibre employees to the organization, thereby improving their corporate image, productivity and profits (in the long run).
 - The opportunity cost of not receiving QA certification can be disastrous to a business in the medium to long term.

Award *1–2 marks* if the answer is rather generalised/superficial and lacks coherence. Limited understanding is shown.

Award *3–4 marks* if the analysis is sound but lacks detail/reasoning in certain areas. Application is missing at the bottom end.

Award *5–6 marks* if the answer is thorough and examines a range of benefits to organizations that hold an external QA certificate such as the BSI Kitemark. Appropriate business management terminology and relevant application have been used.

Unit 5.4 Location

Question 5.4.1 The cost of a good location

- (a) Rising demand for a product, such as land, can push up its price because the higher the demand for something, the higher the price tends to be. Demand refers to the ability and willingness of a buyer to pay a certain price for a good or service. In this case, high/rising demand for prime locations has pushed up the price (or value) of land.

Award *1 mark* if there is some understanding of the link between demand and land values, although the answer might lack clarity.

Award *2 marks* if there is a clear understanding of the link between rising demand and land values, with the use of an example related to the case study the student has studied/investigated.

(b) Possible advantages and disadvantages to consider when deciding whether to relocate overseas include:

- Consideration of adequate infrastructure overseas, e.g. road and communication networks.
- Government incentives and policies, e.g. are there incentives to attract businesses to locate in, or relocate to, a certain region? What are the tax rates in the country? How stable are interest rates in the overseas economy?
- Consideration of indirect costs of overseas operations, e.g. corporation tax rates and planning permission/rights legislation.
- Legal constraints such as the length of time needed to set up (or relocate) a business in the foreign country.
- The quantity, quality, suitability and cost of land.
- Availability, and cost of labour, e.g. many MNCs are attracted to locate in less-economically developed countries due to the availability of low-cost labour.
- The growth potential of the overseas economy.
- The state of technology and the standard of work processes in the foreign country, e.g. how stable (reliable) and secure technology is in these overseas locations.
- The relative costs of hiring labour and technologies in overseas countries.



Award 1–2 marks if the answer is rather generalized and lacks substance.

Award 3–5 marks if the answer lacks detail in certain areas. Award up to 4 marks if only advantages or disadvantages are examined. Award 5 marks only if there is application to the student's chosen business organization.

Award 6–8 marks if there is a clear examination of the advantages and disadvantages to a business deciding whether to relocate overseas. There is appropriate and effective use of business management terminology and application to the chosen business.

Question 5.4.2 Doing business in Singapore

(a) Government rules and regulations can constrain business activity in several ways, including:

- Bureaucratic policies and regulations can deter or even prevent businesses from setting up, e.g. having to take 694 days to set up a business in Suriname may simply put off organizations expanding to such countries.
- Government policies and standards, such as health and safety legislation or employment legislation, can be expensive to comply with.
- Some governments charge very high rates of corporation tax and this clearly drains the funds and therefore constrains the degree of business activity, e.g. high taxes reduce the amount of profits available for reinvestments so can also deter foreign firms from locating in such countries.

On the other hand, government rules and regulations can also enhance business activity in other ways, such as:

- Streamlined business procedures in countries, such as Singapore, ensure that businesses can set up in minimal time with simplistic administrative procedures to follow.
- Government incentives, such as reduced rents or taxes, can entice businesses to locate in a certain location. The business also benefits from having relatively lower costs of production due to the financial support from the government.
- Government policies and rules on trade union activity can also enhance business activity, e.g. the decline in labour union power in most developed nations has liberalized trade.

Award 1–2 marks if the answer lacks detail or is unbalanced.

Award 3–4 marks if the answer is well explained and considers how government rules and regulations can constrain as well as enhance business activity.

- (b) Quantitative factors are the financial costs and benefits of locating or relocating an organization in a specific place such as Singapore. Such factors include:
- Corporation tax rates – these will tend to be relatively low in countries that are ‘highly rated’ as lower rates of corporation tax act as an incentive to stimulate business activity.
 - The level of interest rates – Similarly, interest rates play a key role in the international location or relocation of a business as interest rates affect the gearing and hence long-term liquidity of businesses.
 - The quantity, quality and cost of land – higher rated countries (for conducting business) tend to have land that offers high value for money.
 - The availability and quality of labour – there will be some trade-off between the cost of labour and the quality of labour.
 - Government incentives such as subsidies for locating in a specific location – these tend to be granted for businesses locating in strategic areas aimed at improving employment and economic prospects in such places.

Award 1–2 marks if the answer is generalised, or incomplete and lacks coherence.

Award 3–4 marks if the examination is sound although lacks detail/clarity in certain areas. At the lower end, the factors examined might not be explicitly identified as being quantitative factors.

Award 5–6 marks if there is a thorough examination of the various quantitative factors that affect the (re) location decision of businesses to countries such as Singapore. Appropriate business management terminology and relevant examples have been used.

Question 5.4.3 Doing business in India

- (a) Some of the dangers/risks for MNCs might include:
- Cultural differences – US and British businesses may not be aware of the cultural norms in India. For example, the clothing range from M&S may need to be adjusted to suit local tastes and the different climate.
 - Much of India’s population still suffers from mass poverty; this will limit the amount of consumer spending in the economy.
 - Economically developing countries will lack the infrastructure and communications networks that Western multinational companies are used to.
 - Legislation is likely to be another potential barrier. Apart from different legal systems overseas, laws tend to be rather more lax and this can create all sorts of organizational problems, e.g. India’s ‘bureaucratic procedures’.

Award 1–2 marks for a brief explanation of the risks involved for multinational companies investing in economically developing countries like India. The answer lacks depth and use of relevant examples.

Award 3–4 marks for a thorough explanation of the risks involved for multinational companies (such as Nike, Reebok and Marks & Spencer) wanting to invest in economically developing countries like India.

Note: students do not need to have any prior or detailed knowledge of doing business in India.

(b) Some of the opportunities might include:

- India's impressive economic growth means that there is likely to be increased demand for foreign imports.
- Deregulation in India makes it easier to conduct business in this high growth economy.
- The huge potential increase in sales, due to the large customer base in India, can lead to improved profits for MNCs investing in India.
- Businesses in the retail, tourism and aviation industries are likely to boom; thereby creating opportunities for related business sectors.
- The large English-speaking community and skilled labour force also present many opportunities for Western multinational companies.

Award 1–2 marks for a generalized answer that lacks details/depth of analysis.

Award 3–4 marks for a good examination of at least two opportunities that might exist for businesses that plan to invest in a country such as India. The answer might lack substance in some areas and/or the use of relevant examples.

Award 5–6 marks for a thorough examination of at least two opportunities that might exist for businesses that plan to invest in a country such as India. There is proficient use of relevant business management terminology and good application shown.

Note: students do not need to have any prior or detailed knowledge of doing business in India.

Question 5.4.4 Fifth Avenue, New York

(a) Location is an important management decision for retail businesses because:

- The location decision incurs a highly significant proportion of an organization's costs, so care must be taken in choosing where to locate especially as the decision is largely irrevocable.
- Retailers rely heavily on proximity to customers (who want convenience).
- Infrastructure is important, e.g. road and rail networks and easy access to retail outlets will improve patronage.
- Location is important as retailers cannot usually rely on e-commerce alone to generate sufficient sales.

Award 1–2 marks if the explanation is incomplete and/or vague. It might be presented as a simple list of reasons.

Award 3–4 marks if the explanation is thorough and good examples are used in the context of the case study.

(b) Retail businesses might be prepared to pay extremely high rents in key locations, such as Fifth Avenue, for several reasons, including:

- Competition – rivals may be prepared to pay higher rents to secure a prime location to capture a large potential customer base.
- Corporate image – a prestigious commercial address can affect the public image (perception) of the business.
- Prime retail areas also help to provide a pool of readily available workers.
- Clustering of retailers can also provide opportunities to sell more to customers.

Award 1–2 marks if the answer is vague, generalised and/or descriptive. It might be presented in a list-like format with no/little elaboration.

Award 3–4 marks if there is an explanation of reasons why retailers might be prepared to pay premium rents for prime locations although the answer lacks clarity or detail in some areas.

Award 5–6 marks if there is a clear examination of the reasons why many retailers are prepared to pay premium rents for prime locations such as those mentioned in the case study. Appropriate business management terminology and relevant examples are used.

Question 5.4.5 Volkswagen

- (a) The term ‘brands’ means the exclusive names given to products to differentiate them from one another, backed by legal copyright protection. For example, the brands Audi, Bentley and Beetle are all owned by the Volkswagen Group.

Award 1 mark if the answer shows some understanding of brands, although it might lack clarity.

Award 2 marks if brands is clearly defined, with the use of examples related to the case study likely to be used.

- (b) Reasons in favour of Volkswagen’s (VW) decision to locate its business in India include:

- The high rates of economic growth in India mean that the car industry is likely to continue booming in the country.
- Having operations in India is important to combat competition from existing and new rivals in the country, such as Mercedes-Benz and BMW.
- A large and educated Indian workforce would provide the necessary labour for VW to operate in India (the second most populated nation in the world).
- Foreign firms have flocked to India due to its low cost of operations.
- Any other valid point that is discussed in favour of VW’s decision to locate in India.



On the other hand, arguments against VW’s decision include:

- The lack of proper/developed infrastructure, such as road networks, hinders economic prospects in the country.
- VW’s lack of local knowledge might present problems such as cultural clashes and misunderstandings. Even if VW formed a joint alliance with an Indian firm, there may still be issues surrounding international business etiquette.
- Perhaps other locations, such as investing in China or Brazil, may have been a better move for VW.
- Despite India’s high economic growth rates, India is an economically developing nation with large disparity in income and wealth distribution in society. This can be a major problem for firms, such as VW, because demand for motor vehicles is highly dependent on the level of household income.
- Accept any other valid point against VW’s decision to locate in India.

Note: students do not need to have any prior or detailed knowledge of doing business in India.

Award 1–2 marks if the answer is generalised and lacks reasoning and/or coherence.

Award 3–5 marks if the answer is sound, but lacks balance and/or detail in certain areas. Award up to 4 marks if the answer lacks to *Volkswagen* and India.

Award 6–8 marks if there is a balanced discussion of VW’s decision to locate in India. There is appropriate business management terminology and relevant examples have been used in context. At the top end, there is clear evidence of critical thinking regarding Volkswagen’s decision to locate in India.

Question 5.4.6 Offshore outsourcing: a risky business?

(a) Full capacity means that a business is operating at its maximum potential, i.e. there is no spare capacity as the firm is operating at its productive capacity. Drawbacks of working at full capacity include the following:

- Mistakes being made as workers are overstretched, thus possibly leading to product recalls.
- High capacity utilization requires constant use of equipment and machinery without the time for routine servicing and maintenance.
- Added stress and pressure for workers (who may well be exhausted from working overtime); this would clearly harm productivity and staff morale. In extreme cases, workers at the Foxconn plant even committed suicide.

Award 1–2 marks if the answer explains one drawback in detail or if two disadvantages are vaguely outlined. Appropriate examples/application might be missing.

Award 3–4 marks for clearly explaining two drawbacks of workers operating at full capacity. Appropriate business management terminology and relevant examples are used.

(b) Arguments in favour of MNCs, such as Apple, Danone and Mattel, outsourcing some of their operations abroad include:

- The subcontracted work is provided at competitive prices, enabling the MNCs to control their operational costs.
- Quality can be improved as the outsourced firm is specialized in the output of such goods and/or services, e.g. Foxconn has competitive advantages in the output of electronics for its clients such as Sony, Nintendo and Microsoft.
- Outsourcing allows the MNCs to concentrate efforts on their core activities, i.e. what they are best at doing, thereby improving their own overall efficiency.

However, the disadvantages of outsourcing for the MNCs include:

- Subcontractors in China/overseas need to be monitored to ensure that deadlines and quality standards are met. This will increase administrative costs to the MNCs.
- Subcontractors have been known to ‘cut corners’ by hiring under-age, illegal and unqualified workers to cut their own costs and to optimize their own profits, e.g. mistreatment of workers has led to negative publicity associated with the likes of Apple, Dell and HP.
- The benefits of outsourcing are subject to changes in the external environment, e.g. rising labour costs in China will reduce the financial benefits of outsourcing to Chinese firms.

Award 1–2 marks for a generalised answer that is descriptive or lacks substance. Some understanding is shown, albeit limited. The answer might be presented in a list-like format.

Award 3–5 marks if the answer lacks coherence or is rather unbalanced. Relevant examples and/or application might be missing.

Award 6–7 marks if there is a good examination of both the arguments for and against the MNCs using subcontractors. There is appropriate use of business management terminology and relevant use of the stimulus material in the case study. No evaluation has been attempted or is rather superficial.

Award 8–9 marks if there is a thorough discussion of the arguments for and against MNCs using outsourcing to carry out some of their activities overseas. At the top end, there is good application of the case study, with a justified conclusion about the decision to use outsourcing.

Question 5.4.7 Offshoring in India

- (a) Offshoring is a form of outsourcing that involves relocating business functions and processes overseas as a strategy to remain competitive, e.g. USA and European firms that operate call centres in India.

Award 1 mark for a vague understanding of offshoring.

Award 2 marks if the concept of offshoring is understood with appropriate terminology and examples likely to be used.

- (b) Arguments in favour of offshoring include the following:

- Offshoring allows a business to move its non-core activities away from internal operations, thereby helping to cut costs of production.
- Offshoring to overseas specialists means that the subcontractors can carry out the non-core activities more efficiently and cost effectively, yet to a higher quality standard.
- Allowing the business more time to then focus on developing its core competencies.
- It can help a business to get around trade protectionist measures used by overseas governments.

Arguments against offshoring include:

- Initially, offshoring can cause major uncertainties among the workforce (due to the restructuring and the likelihood of staff redundancies). This needs to be managed carefully to minimize conflict and resistance to change.
- Offshoring is totally dependent on effective lines of communication with third-party suppliers to maintain consistency.
- Since there is a total reliance on an overseas subcontractor, any conflict can be potentially damaging to the operations of the business.

Whether offshoring is suitable for a particular business will depend on a host of factors, such as:

- The financial and liquidity position of the business – offshoring can certainly help to reduce operational costs.
- The availability and costs of hiring overseas staff.
- The impact on the firm's corporate image, e.g. mass redundancies tend not to attract good media coverage and neither does hiring child labour in overseas countries.
- The firm's commitment to its corporate social responsibilities, e.g. does offshoring involve the exploitation of labour in poorer countries?

Award 1–3 marks if the answer lacks substance and is rather vague. It might be presented in a list with no or little relevance to the issue in question.

Award 4–6 marks if the analysis is sound but lacks detail in certain areas and is likely to be unbalanced. There is adequate use of business management terminology. Award up to 5 marks if only reasons for or against offshoring are examined.

Award 7–8 marks if there is a balanced discussion of both the reasons for and against a business choosing to use offshoring for some of its functions. There is proficient use of business management terminology and relevant examples. There is clear evidence of critical thinking and evaluation.

Question 5.4.8 KFC, Vietnam

- (a) A multinational company is an organization that operates in two or more countries, e.g. KFC, a US fast-food company, has operations in Vietnam.

Award 1 mark if the answer shows some understanding of the term multinational company, although the answer might lack clarity.

Award 2 marks if multinational company is clearly defined, with the use of examples related to the case study likely to be used.

- (b) The benefits to KFC in being the first well-known fast-food chain to locate in Vietnam include the following:
- Gaining a 'first mover advantage' allows KFC to gain a loyal customer base, to charge relatively high prices, to establish a favourable corporate image and to secure strong market share in Vietnam before rivals firms enter the country.
 - There is huge scope to make the most of the monopoly situation in Vietnam. Hence, being the first well-known fast-food chain to locate in the country better prepares KFC to contend with potential competition from rivals such as McDonald's.
 - KFC can secure the best locations in Vietnam, such as Hanoi, before rival companies locate in the country.

Award 1 mark for identifying one benefit to KFC locating in Vietnam.

Award 2 marks for explaining one benefit to KFC being the first fast-food chain to locate in Vietnam.

- (c) The factors that make Vietnam such an attractive location for global multinational companies include the following:
- Economic and political reforms in Vietnam have transformed the former communist country to one with huge untapped retail potential for companies such as KFC and McDonald's.
 - Vietnam has a large and youthful population, thereby creating a huge potential customer base for multinational retailers.
 - Vietnam is a fast-growing economy, with the expectation of becoming an economically developed nation by 2020, so this creates huge opportunities for consumer-led markets in the country.
 - Vietnam's entry into the World Trade Organization (WTO) in 2007 made trading in the country much easier and therefore has led to a significant increase in foreign direct investment. This creates further opportunities for multinational companies such as KFC.
 - Entry to the WTO is also likely to lead to a significant increase in tourism in the country, again creating opportunities for multinational companies that operate in Vietnam.

Note: there is no need for candidates to have prior knowledge of the Vietnamese economy.

Award 1–2 marks if the answer is generalized with a lack of detail. It might be presented in a list-like format.

Award 3–4 marks if the examination shows good understanding, although it lacks detail in some areas. There is little, if any, application of the stimulus material.

Award 5–6 marks if there is a thorough examination of factors that make Vietnam an attractive location for global multinational companies such as KFC and McDonald's. There is proficient use of business management terminology and appropriate examples are used effectively.

Unit 5.5 Production planning [HL Only]

Question 5.5.1 Carrefour

- (a) The supply chain process refers to the management of a firm's operational logistics, i.e. managing and controlling the sequence of activities from the production of a good or service to its delivery to the end customer, in a cost effective way. This will include, for example, overseeing the distribution and transportation of Carrefour's vast amount of product range to its 12 500 retail stores.

Award 1 mark if the answer shows some understanding of the supply chain process, although the answer might lack clarity.

Award 2 marks if the supply chain process is clearly defined, with the use of an example related to the case study likely to be used.

- (b) Carrefour might choose to improve the efficiency of its supply chain process in several ways, including:
- Fostering an improved relationship with its suppliers to reap benefits such as timely deliveries of products and perhaps at lower costs (thereby allowing Carrefour to charge lower prices).
 - Continuous professional development, such as customer service training, for all staff to deliver a first-rate service for Carrefour's customers.
 - Develop stock control systems to improve the ordering, storage and monitoring of inventory and the movement of all stocks through better use of ICT systems.
 - Implement a system of quality assurance at all stages of the distribution process to improve overall operational efficiency.
 - Investigating and reviewing alternative transportation (distribution) networks to determine the most cost-effective methods of distribution; vital for a global operator such as Carrefour.

Award 1–2 marks for a generalized answer that is descriptive or lacks application. There is limited understanding shown.

Award 3–4 marks if there is some examination of the ways that Carrefour might improve the efficiency of its supply chain process, but the answer lacks depth or substance.

Award 5–6 marks if there is a thorough examination of the ways that Carrefour might improve the efficiency of its supply chain process. Appropriate business management terminology has been used with reference to the case study.

Question 5.5.2 DS Café

- (a) A sole trader is a type of business owned and controlled by a single person who reaps all of the profits (if any) made by the organization. However, the sole trader also has the risk of unlimited liability. Dave Stevens is the sole proprietor (owner) of DS Café.

Award 1 mark if the answer shows some understanding of sole trader, although the answer might lack clarity.

Award 2 marks if sole trader is clearly defined, with the use of an example related to the case study likely to be used.

- (b) Just-in-time (JIT) is a stock management system based on having stocks (inventory) delivered only when they are needed for production. As stocks are delivered just before they are used, there is no need for DS Café to hold high levels of stock (which is causing liquidity problems for the firm). Instead, with JIT, only the absolute minimum level of stock, if any, is held at DS Café. Therefore, this helps to improve the cash flow position of the business.



JIT also allows DS Café to be more flexible and responsive to the changing needs of its customers, especially during non-busy trading periods. JIT reduces the costs of holding stock (e.g. storage space), cuts the risk of stock being damaged or spoiled, and lessens wastage for the café, such a stock management system helps to improve the cash flow position of DS Café.

Award 1–2 marks if the answer lacks detail and/or application or is presented as an unexplained list.

Award 3–4 marks if the answer explains why JIT might be suitable to DS Café because it faces cash flow problems. The explanation is thorough and there is good application to the case study.

- (c) Placing inventory (stock) orders based on sales forecasts might be advisable for several reasons, including the following:
- It reduces the risks of making decisions based on intuition or simple guess work, which can be highly inaccurate and therefore inefficient.
 - Sales forecasts are based on past trends and these provide guidance to predicting future sales, i.e. it is likely to give more accurate predictions.
 - Being 'too busy to place orders' means there is no systematic ordering system at DS Café so this could lead to under-stocking or stockpiling.
 - Since it helps to improve stock control, the cash flow position can be improved and the café's working capital can be put to better use.

Award 1–2 marks if the commentary lacks detail and/or application. Limited understanding is shown.

Award 3–4 marks if the commentary addresses how placing inventory orders based on sales forecast might be beneficial to a business such as DS Café. There is proficient use of business management terminology.

Question 5.5.3 Ford's stockpiling nightmare

- (a) Stockpiles refers to the accumulated (or excess level of) supply of Ford motor vehicles, i.e. too much production of cars given the level of demand. The purpose is to prevent possible shortages in supplies which could harm sales and profitability (although stockpiling is the result of poor stock control in Ford's case).

Award 1 mark if the answer shows some understanding of stockpiles, although the answer might lack clarity.

Award 2 marks if stockpiles is clearly defined, with the use of an example related to the case study likely to be used.

- (b) Poor stock control can mean either excessive stockpiling or under-stocking (or even a stock-out). There are drawbacks to both, as outline below:

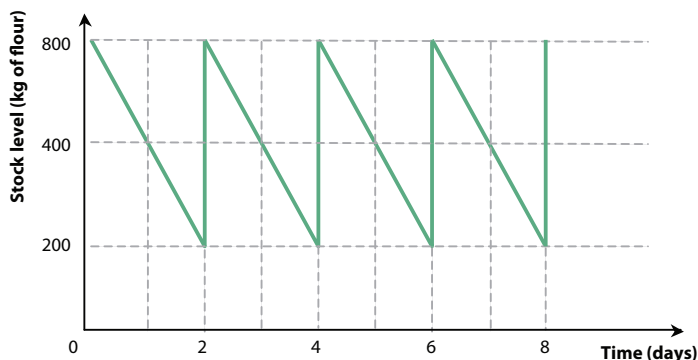
Overstocking	Understocking
Reduces Ford Motor Company's cash flow position	Disgruntled and dissatisfied customers due to a lack of stock
Likely to hinder working capital since finance is tied up in stockpiles	Customers might switch to rival manufacturers' brands of vehicles
Higher storage costs for the stocks of vehicles, e.g. insurance, maintenance and security	Compensation payouts to customers for failure to meet promised delivery dates
Possibility of some stock being damaged or even becoming obsolete (unlikely for cars, but their value could still depreciate).	Higher unit costs of production due to idle resources (which cost money but do not generate any revenue).

Award 1–2 marks if the answer is generalized and is descriptive or lacks substance. Some understanding is shown, although the answer might appear as an unexplained list.

Award 3–4 marks if there is some analysis of the costs of poor stock control. The answer might lack details or the use of applied examples.

Award 5–6 marks if there is a thorough examination of the costs of poor stock control to Ford Motor Company. Appropriate business management terminology has been used with reference to the case study.

Question 5.5.4 QE Bakery



- (a)
- 400 kilos
 - 600 kilos
 - 200 kilos
 - 1 week

Award 1 mark for each correct answer.

- (b) Possible reasons could include the following points:
- Supermarkets have more customers and sales turnover so require higher reorder quantities, i.e. they hold larger volumes of stock that need to be replenished more regularly.
 - Higher reorder levels are required to prevent a stock-out, which would seriously damage the sales and public image of the supermarket.

- Supermarkets are probably larger in size than QE Bakery and therefore have the space for storing large volumes of stock (hence reorder levels can be higher).
- QE Bakery is unlikely to be the sole supplier of bread and cakes to the local supermarkets and hence supermarkets will have larger volumes of stock.
- Supermarkets experience longer lead times since they have longer distribution channels and more sophisticated supply chain management (hence reorder quantities need to be higher to compensate for the longer lead time).

Award *1–2 marks* if the explanation is incomplete and/or vague. It might be presented as a list without any detail or development.

Award *3–4 marks* if the explanation is thorough and good examples are used in the context of the case study.

(c) Advantages of JIT in comparison to JIC for QE Bakery include:

- JIT reduces the storage and insurance costs of holding huge volumes of stock (of flour) for the bakery.
- As there is no need to hold stocks, JIT improves QE Bakery's cash flow and liquidity position.
- Implementation of JIT reduces waste as the stock of flour under a JIC system can go out of date or get damaged (there is no buffer stock in a JIT system).
- JIT can help strengthen QE Bakery's relationship with its suppliers (a prerequisite for JIT to work).

On the other hand, there are disadvantages to QE Bakery using JIT, such as:

- There is a huge reliance on QE Bakery's suppliers. Relying on an external firm to supply all the flour needed for production could mean that there are major problems if stocks are not delivered on time.
- Minimal stock levels mean that there is little flexibility. Thus there is no room for error in the production process so this can add pressure to staff, especially when dealing with large clients such as the supermarkets. JIT systems often prove inflexible in trying to cope with a sudden increase in demand.
- Since stock levels and stock orders are minimal, there are fewer opportunities for QE Bakery to exploit purchasing economies of scale. In addition, administration costs would be higher as the frequency of stock ordering increases under a JIT system.
- As JIT is a philosophy, it must be embedded into the culture of QE Bakery. This requires a cultural shift in thinking as the firm does not currently use a JIT stock control system.

Award *1–2 marks* if the answer is generalized and tends to be rather descriptive or lacks substance. It might be presented in a list-like format without any explanation/development.

Award *3–4 marks* if there is an examination of how QE Bakery might be affected by using JIT but the response is unbalanced and/or lacks details.

Award *5–6 marks* if there is a thorough examination of both the advantages and disadvantages of introducing JIT to QE Bakery. Appropriate business management terminology has been used with reference to the case study.

Question 5.5.5 Calculating capacity utilization

(a) Capacity utilization = $(20\,100 \div 30\,000) \times 100 = 67\%$

Award *1 mark* for the correct working out and *1 mark* for the correct answer.

- (b) At 20 100 units, $AC = (\$10\,000 \div 20\,100) + \$5 = \$5.49$
 At 30 000 units, $AC = (\$10\,000 \div 30\,000) + \$5 = \$5.33$

Award 1 mark for the correct working out and up to 2 marks for the correct answers.

- (c) At 20 100 units, profit margin = $\$15 - \$5.49 = \$9.51$
 At 30 000 units, profit margin = $\$15 - \$5.33 = \$9.67$

Award 1 mark for the correct working out and up to 2 marks for the correct answers.

- (d) At 20 100 units, total profit = $(\$15 \times 20\,100) - [\$10\,000 + (\$5 \times 20\,100)] = \$191\,000$
 At 30 000 units, total profit = $(\$15 \times 30\,000) - [\$10\,000 + (\$5 \times 30\,000)] = \$290\,000$
 Hence, the percentage change in profits is therefore = +51.83%
 Accept answers rounded as follows:
 At 20 100 units, total profit = $\$9.51 \times 20\,100 = \$191\,151$
 At 30 000 units, total profit = $\$9.67 \times 30\,000 = \$290\,100$
 Percentage change in profits is therefore = +51.76%

Award 2 marks for the correct working out and up to 2 marks for the correct answers.

Question 5.5.6 AMC Theatres

- (a) Capacity utilization measures a firm's level of output as a proportion of its total potential output (productive capacity). The higher the capacity utilization, the closer the output is to the firm's maximum level of output.

Award 1 mark if the answer shows some understanding of 'capacity utilization', although the answer might lack clarity.

Award 2 marks if 'capacity utilization' is clearly defined, with the use of an example related to the case study likely to be used.

- (b) Marginal cost refers to the extra cost of providing an extra unit of output, i.e. $\Delta TC / \Delta Q$. Whether the cinema has 100 or 101 customers makes very little, if any, difference to the cost of screening the particular movie. This is because the movie needs to be screened at the advertised time (with its associated costs such as staffing and power) irrespective of the number of customers watching the movie. The extra costs are therefore close to, or equal, to zero.



Award 1–2 marks if there is some understanding of marginal cost but the answer lacks any application to the movie industry.

Award 3 marks if marginal cost is understood and there is good application to the cost of serving an extra customer at the cinema.

- (c) High capacity utilization at the cinema means that each movie screening is close to its maximum capacity (in terms of the number of seats in each auditorium). High capacity utilization is important for cinemas, such as AMC, for several reasons, including the following:
- The fixed costs of running a cinema are spread out over a large level of output, i.e. the greater the number of customers at the cinema, the lower its average fixed costs.
 - Low capacity utilization would mean lower levels of sales revenue and lower total contribution made from each movie being screened.
 - Higher capacity utilization would improve profit margins and hence shorten the payback period (break-even) for each movie.
 - As the extra (marginal) cost of screening a movie is close to zero, high capacity utilization is important for firms such as AMC to maximize profits.
 - Movies that are watched by a large audience (near full capacity) will be prolonged and perhaps shown on multiple screens. By contrast, unpopular movies will be terminated to improve the cinema's liquidity position.

Award 1–2 marks if the answer is rather vague and generalized. It might be presented as a list, although some understanding is shown.

Award 3–4 marks if there is an examination of the importance of high capacity utilization, although the response lacks depth or coherence in some areas. There is little, if any, application to the case study.

Award 5–6 marks if there is a thorough examination of the importance of high capacity utilization for AMC. Appropriate business management terminology and relevant examples are used effectively, written in the context of AMC Theatres.

Question 5.5.7 Calculating labour productivity

- (a) Labour productivity based on sales per worker:
- Gupta Realty Ltd. = $\$15\,450\,372 \div 18 = \$858\,354$ per person
 - Jenkins Realty Co. = $\$13\,075\,560 \div 16 = \$817\,223$ per person
 - Thus, the sales team at Gupta Realty Ltd. is more productive as the average sales person sells an extra \$41 131 worth of real estate.

Accept answers that calculate the average price of each unit sold:

- Average price of properties sold at Gupta Realty Ltd. = $\$15\,450\,372 \div 54 = \$286\,118$
- Average price of properties sold at Jenkins Realty Co. = $\$13\,075\,560 \div 60 = \$217\,926$
- Thus, again, the staff at Gupta Realty Ltd. are more productive as the average price of each unit sold is \$68 192 higher.

Award 1 mark for the correct working out and up to 2 marks for the correct answers.

- (b) Although Gupta Realty Ltd. has higher productivity as measured by sales per worker or the average price of each property sold (part (a) of the question), Jenkins Realty Co. might be considered to be more productive if an alternative measure of output per worker is used:
- Gupta Realty Ltd. sold 3 properties with 18 workers (54 properties sold between 18 sales staff).
 - Jenkins Realty Co. sold 3.75 properties in the same time period with a smaller workforce of 16 people (60 properties sold between 16 sales staff).
 - In addition, it is not known how many hours were spent by each firm or each real estate agent in making the sale of each property.

So, each sales staff at Jenkins Realty Co. sold a greater number of units in the same time. Therefore, the choice of measurement of the productivity rate can determine how efficient firms are interpreted to be.

Award 1–2 marks for an answer that shows limited understanding of why it might be difficult to confirm which of the two firms is most productive.

Award 3–4 marks for an answer that shows a good level of understanding of why it might be difficult to conclude which of the two firms is most productive. There is good use of the numerical information in the case study.

Question 5.5.8 Facebook, Twitter and productivity

- (a) Labour productivity measures the amount of goods and services produced by one unit of labour (such as output per worker, output per worker hour or sales per worker hour). It is a measure of the efficiency with which firms use their labour inputs to produce goods and services. Labour productivity will fall if workers spend one hour each day on social network sites, such as Facebook and Twitter, rather than doing their work during that time.

Award 1 mark for a limited understanding of labour productivity.

Award 2 marks if labour productivity is clearly understood with appropriate business management terminology and a relevant example used.

- (b) The costs of low productivity for businesses include:
- Lost output – some ‘£14 billion (\$22bn) a year in lost work time’
 - Higher costs – workers are being paid yet do not generate any revenue when they are surfing the social network sites.
 - It can also mean that personnel costs rise due to reasons such as sanctions being introduced, training costs and the cost of hiring new/replacement staff.
 - Less competitiveness – lower productivity is associated with higher unit costs and inefficiency.
 - Lower profitability – More than 2 million worker hours are wasted each day at work, which could have been used to generate more sales and greater profits for businesses.

Award 1–2 marks if the answer shows limited understanding, but lacks detail. It may be presented in a list, with no/little relevance to the issue in question.

Award 3–4 marks if the examination is good but lacks detail or substance in certain areas. There is adequate use of business management terminology. At the bottom end, the answer lacks coherence and/or structure. At the top end of the mark band, application has been attempted.

Award 5–6 marks if there is a thorough examination of the costs of low labour productivity. Analysis is detailed and/or probing, with clear application of the case study. There is good use of business management terminology throughout the answer.

Question 5.5.9 To make or to buy?

- (a) The terms ‘cost-to-make’ (CTM) and ‘cost-to-buy’ (CTB) are used in make-or-buy decisions, i.e. a person’s or firm’s choice to either produce a product or to purchase it from a supplier. The CTM refers to the relative costs of producing the product whereas the CTB refers to the costs to purchase the product from a third-party supplier. In this case, Ned is deciding between buying a train table for his sons or whether it would be better for him to make it for them.

Award 1–2 marks if the description shows some understanding of the difference between cost-to-make and cost-to-buy decisions, although the answer might lack clarity and/or the use of an example.

Award 3 marks if the description shows a good understanding of the difference between cost-to-make and cost-to-buy decisions, with the use of an example related to the case study likely to be used. There is good use of business management terminology throughout the answer.



(b) Arguments for Ned making the train table include:

- He could personalize the product to meet the needs and tastes of his sons since ‘the boys might not like the design’ of the ready-made train table.
- On financial grounds, the CTM is \$80 compared to the higher CTB of \$155 (or an extra 93.75%).

Arguments for buying the ready-made train table include:

- Ned saves fifteen hours of his time – does Ned have the (spare) time to make the product? What else could he have been doing in these 15 hours – playing with his sons instead of building the train table?
- Delays in making the train table could mean that the boys do not get delivery of their gift in time for their birthdays.
- Forecasting errors and quality defects could prove to be costly and therefore reduce the numerical difference between the CTB and the CTM.

Other issues that Ned might consider include:

- CTM versus CTB include qualitative factors, i.e. \$80 (plus 15 hours of his time) versus \$155 – which is more important to Ned?
- On quantitative grounds only, as the CTM is less than the CTB, it is more financially desirable to ‘make’ the train table, but Ned might value his time differently.
- The relative quality of the ready-made and home-made products – does Ned have the skills and craftsmanship to match the quality of the train table produced by the manufacturer?
- Whether there are any guarantees or after-sales care being offered by the retailer – the greater the after-sales services, the more attractive the ‘buy’ decision becomes.

Given Ned feels the ready-made product is ‘bland’ and ‘simplistic’ he probably feels the ready-made product does not represent value for money. If this is the case, then it is advisable that Ned goes for the ‘make’ decision – assuming he can complete the project in time.

Award 1–3 marks for a generalized answer which is descriptive or lacks substance.

Award 4–6 marks if there is an examination of both the arguments for and against the buy (or make) decision, with some application or use of examples.

Award 7–8 marks if there is a balanced consideration of the make or buy decision faced by Ned. Appropriate business management terminology has been used and there is good application with evidence of critical thinking. There is a justified decision made.

Unit 5.6 Research and development [HL Only]

Question 5.6.1 Johnson & Johnson



(a) Research and Development (R&D) is important to Johnson & Johnson for several reasons, including the following:

- Pharmaceuticals/medicines require thorough and extensive R&D before they can be launched (commercialized).
- R&D expenditure can lead to new products being marketed which are highly profitable, e.g. Viagra or influenza vaccinations.
- R&D can help to improve the quality and appeal of the firm's products, thereby giving Johnson & Johnson a competitive advantage.
- R&D can help Johnson & Johnson to spread its risks by having a larger product portfolio, such as baby products, contact lenses and other health care products.
- Like innovation, successful R&D can lead to brand switching and brand loyalty.
- Similarly, R&D can help Johnson & Johnson to launch new products under the same (manufacturer) brand name.

Award 1–2 marks if the explanation is incomplete and/or vague.

Award 3–4 marks if the explanation is thorough and good examples are used in the context of Johnson & Johnson.

(b) A two-sided argument is needed; an example of which is outlined below:

Justifications for R&D expenditure	Justifications against R&D expenditure
• Can help to keep Johnson & Johnson up to date/competitive	• Time, energy and resources are consumed in fruitless R&D
• Improves the firm's chances of survival in the long run	• It can be difficult to predetermine R&D timescales and budgets
• Positive effects on the reputation/image of the firm	• The high failure rate means there could be better use of the firm's limited funds
• R&D can be a source of organizational growth and evolution	
• R&D can prolong the product life cycle of certain products	

Whether R&D expenditure can be justified depends on several related factors, including:

- The firm's overall budget, i.e. are there sufficient funds available for R&D?
- The amount of R&D expenditure of rival firms.
- The type of industry in which the firm operates, e.g. Johnson & Johnson operates in the pharmaceutical industry, where the health and safety of customers is paramount.
- The aims and objectives of the organization, e.g. is Johnson & Johnson market led or product orientated?
- The firm's risk profile, i.e. how much risk is the firm willing and able to take?
- Whether management decision-making is based on gut feelings (intuition) or scientific methods.
- The quality of R&D (especially if R&D is outsourced to specialist organizations).

Given the nature of the industry in which Johnson & Johnson operates, it is highly likely that R&D is integral to the firm's long-term strategic planning. Ultimately, for Johnson & Johnson, it could be necessary to spend money (on R&D) to earn more money in the future. R&D might be vital to increase the chances of success in launching new products. Arguably, it is not a matter of whether the firm can afford to spend on R&D, but whether it can really afford to ignore R&D expenditure. If this is the case, then R&D can be justified to a large extent.

Award 1–2 marks if the answer is vague, generalised or lacks substance.

Award 3–4 marks if the answer shows some understanding of why R&D expenditure can be justified. There is little, if any, application to the case study.

Award 5–6 marks if there is an examination of the importance of R&D expenditure and how it can be justified. Appropriate business management terminology and relevant examples are used.

Award 7–8 marks if there is a balanced discussion of the extent to which R&D expenditure can be justified, despite the high failure rate of new products on the market. Appropriate business management terminology and relevant examples have been used. There is evidence of critical thinking and evaluation.

Question 5.6.2 Nintendo Company

- (a) Brand loyalty occurs when customers repeatedly buy the same brand of a product rather than rival brands. Loyal customers are devoted to the brand as they have brand preference over other brands.

Award 1 mark if the description shows some understanding of brand loyalty.

Award 2 marks if the description shows a clear understanding of brand loyalty. The answer uses appropriate business management terminology and/or the use of an appropriate example.

- (b) Innovation is important for businesses operating in rapidly changing industries, such as the games console market, for several reasons including the following:
- innovation is important for Nintendo to keep pace with rivals, such as Sony and Microsoft
 - innovation can help get the attention of customers
 - can provide a first mover advantage in such fast-moving industries
 - games consoles tend to have relatively short life cycles and therefore innovation is essential for survival in a rapidly changing industry
 - innovative products can give manufacturers a competitive edge and therefore to be more successful.

Award 1–2 marks if there is some understanding of innovation. The commentary might lack application, i.e. the importance of innovation in a rapidly changing industry.

Award 3–4 marks for an applied commentary that demonstrates a clear understanding of the importance of innovation in a rapidly changing industry such as the games console industry. Relevant business management terminology and appropriate examples have been used.

- (c) The degree of R&D in a business, such as Nintendo, depends of several factors, which include the following:
- Benchmarking – the budgeted R&D expenditure of rival companies such as Sony and Microsoft.
 - The financial position of the firm – the more profitable Nintendo is, the more likely it is to have funding for R&D.
 - The firm's market share – higher market power means that Nintendo has greater ability to fund and conduct R&D.

- The product life cycle – games consoles tend to have quite short product life cycles so there is a greater need for R&D in such firms.
- Risk profile – firms that are risk adverse have a tendency for less innovation so will pour less money into R&D.
- Market orientation versus product orientation – firms that are more inward-looking will tend to produce products that they hope will sell.
- Adoption rates – if innovators and early adopters (customers) embrace the new technologies, Nintendo is more likely to invest in R&D.
- Management attitudes – this factor will be of importance especially given the high failure rate of products launched on the market.
- Change – the speed and severity of change in the games console industry is also likely to increase the degree of R&D in these firms.
- Quality of the workforce – for example, are employees enterprising and creative?

Award 1–2 marks if the answer is vague and/or generalised. It might be presented as a list with little, if any, explanation.

Award 3–4 marks if the examination covers a range of factors that affect the degree of R&D in a business, although it lacks detail in areas and/or lacks application to firms such as Nintendo.

Award 5–6 marks if there is a thorough examination of the various factors that affect the degree of R&D in a business such as Nintendo. Business management terminology and application have been used effectively.

Question 5.6.3 Hotmail

- (a) Explanation what is meant by innovation (innovative products). Application is needed for maximum marks.
- Hotmail was offered as a ‘free’ email service, provided that people had access to the Internet (the first of such products to be offered to the general public).
 - The founders were visionary: to allow people to access a single email account from anywhere in the world. Hence, this vision helped Hotmail to attract more than 1 million customers in its first 6 months of operation.
 - Hotmail underwent innovative product development, e.g. webcam and instant messaging services.

Award 1–2 marks if the explanation is incomplete and/or vague, also some understanding is shown.

Award 3–4 marks if the explanation is thorough and relevant examples are used in the context of Hotmail.

- (b) Innovation is vital to high-tech firms such as Microsoft for several reasons:
- To keep pace with/ahead of competitors that are frequently launching new products (software), i.e. innovation can help a business to gain competitive advantages.
 - High-tech firms tend to have short product life cycles, so innovation is crucial to the organization’s long-term survival.
 - The high-tech industry undergoes more rapid change than most other industries, i.e. it is very fast paced. Hence innovation is inevitable.
 - Innovation can be a major source of profits for high-tech firms (just look at what Office did for Microsoft and what the iPad and iPhone did to help Apple!)
 - Being innovative can help to enhance an organization’s corporate image and customer perceptions.
 - Innovation is crucial to pay for (recoup) the high costs of R&D expenditure in high-tech industries.
 - Being innovative can have positive motivational effects on employees.

- Innovation can allow firms to charge relatively high prices, thereby earning higher profit margins.
- Innovation, such as Windows Live Messenger, can foster brand loyalty and help brands to endure.
- Innovation can act as a vital source of product differentiation.

Award 1–2 marks if the answer is rather generalized and lacks coherence. It might be presented in a list-like format.

Award 3–4 marks if there is some examination of the importance of innovation to high-tech firms, although the answer lacks detail/clarity in areas. There is little, if any, application to high-tech firms such as Microsoft.

Award 5–6 marks if there is a thorough examination of the importance of innovation to high-tech firms such as Microsoft. Appropriate business management terminology has been used and there is good application of the stimulus material.

Question 5.6.4 Mike Trigg

- (a) The term ‘internal stakeholder’ refers to an individual member of an organization, e.g. an employee, manager, director or shareholder of the organization.

Award 1 mark if the definition shows some understanding of the term ‘internal stakeholder’.

Award 2 marks if the definition shows a clear understanding of the term ‘internal stakeholder’. The answer uses appropriate business management terminology and/or the use of appropriate examples.

- (b) Innovative creativity is a radical form of innovation which involves creating something that is thoroughly new, including reshaping organizational culture. Innovators (people with innovative creativity, such as Mike Trigg) redefine problems and cultural norms to create something new. Reasons why Mike Trigg’s proposals might be described as innovative creativity include:
- Changing the timings of the school day (from 4 to 5 periods, and lesson times from 75 minutes to 60 minutes).
 - Introducing a new House system is rather radical, moving from six houses to just four.
 - Empowering workers through the ‘Open Forum’ discussions with staff.

Award 1–2 marks if the answer suggests one reason in detail or if two reasons are vaguely explained. Appropriate examples/application might be missing.

Award 3–4 marks for clearly suggesting two reasons why the proposals might be considered to be innovative creativity. Appropriate business management terminology and examples related to the case study are used.

Unit 5.7 Crisis management and contingency planning [HL Only]

Question 5.7.1 Meat products recalled in the USA

- (a) A crisis can be described as an emergency situation causing instability and major problems for a business. It is usually unexpected and often unpredictable, e.g. food scandals causing a public relations disaster for retailers including Nestlé, Walmart and Sam’s Club.

Award 1 mark if the description shows some understanding of a crisis.

Award 2 marks if the description shows a clear understanding of a crisis, with an appropriate example used.

- (b) Crisis management refers to the management of operations before, during and after a crisis. Effective crisis management helps retailers such as Walmart to deal with the crisis of recalling 3.62 million kilograms of recalled meat.
- It allows managers to respond to such major disruptions to their business by implementing a contingency plan to restore their operations.
 - It requires senior managers to detect and deal with crises in a swift manner before they escalate into significant problems for the business. This also dampens any damage to retailers, such as Walmart, caused by negative media coverage.
 - Successful crisis management helps (to some extent at least) to ensure that measures are in place to minimize Walmart's exposure to a crisis, e.g. by implementing effective quality management systems to prevent unsafe meat products from being sold at its supermarkets.
 - It will necessitate the use of business continuity plans to minimize the disruptions and damages (physical, psychological and financial) caused by the catastrophe faced by retailers, such as Walmart, thereby giving employees a sense of direction and reassurance during the crisis.
 - Ultimately, careful and effective planning can help retailers, such as Walmart, to become better prepared and resilient to such major catastrophes, thereby enhancing the chances of continuity in the face of major disasters.

Award 1–2 marks if the answer is generalized and lacks substance.

Award 3–4 marks if the examination is sound but lacks detail in certain areas and/or may lack application to the case study.

Award 5–6 marks if there is a thorough examination of the ways in which effective crisis management can help retailers, such as Walmart, to deal with a crisis, such as the one in the case study. Appropriate business management terminology has been used and there is good application of the stimulus material.

Question 5.7.2 Bausch & Lomb

- (a) Crisis planning is the part of crisis management that involves the planned prevention of a crisis by formulating plans to deal with serious disruptions and damage to a business. In this case, crisis planning must be used to deal with the health and safety catastrophe faced by Bausch & Lomb (B&L).

Award 1 mark if the description shows some understanding of crisis planning.

Award 2 marks if the description shows a clear understanding of crisis planning, with appropriate application from the case study likely to be shown.



- (b) Devoting time and resources to crisis management may be futile or inefficient because:
- Statistically, crises are unlikely to occur or may never happen. (Why would B&L contemplate producing contact lens solutions that cause eye infections!) Hence, the time, resources and money invested into crisis management could have been better used elsewhere.
 - The whole process can be extremely time consuming and this represents a huge opportunity cost to management time.
 - Some risks are simply unpredictable and/or unquantifiable, e.g. terrorist attacks or public health scares. Hence, not all risks can be covered in crisis management.
 - Crisis management might be based on outdated or inaccurate data, and therefore inappropriate plans may be devised leading to inappropriate action being taken in the event of an actual crisis.

- No amount of crisis planning can prevent the totally unexpected from happening, such as \$500 million being wiped off B&L's stock market value.

These arguments (and others) suggest that it is not possible, nor worthwhile, for a business, such as B&L, to plan for a crisis.

On the other hand, many would argue that resources need to be devoted to crisis management, i.e. it is possible (and necessary) to plan for a crisis, because:

- Careful planning can help to reduce risks and the impact of a catastrophe faced by a business because most, if not all, eventualities are accounted for.
- Crisis management encourages proactive, rather than passive, thinking to be better prepared to cope with a crisis situation. However, this will also depend on the extent to which the crisis is quantifiable.
- Crisis management can reassure B&L's workforce as there is a well thought out plan to follow in the event of a major disaster.
- Similarly, it promotes effective communication between management and employees, thereby possibly helping to enhance productivity, motivation and industrial relations.
- External shocks are inevitable in today's fast-paced business environment. Effective crisis management can then mean the difference between survival and failure for a business such as B&L.
- Ultimately, effective crisis management enables a business such as B&L to be better prepared and equipped to deal with a crisis, although this tends to be easier to do if risks and crises are quantifiable.

The extent to which businesses such as B&L can realistically plan for a crisis will then depend on a number of interrelated factors, such as:

- Time and budgets allocated to management for crisis planning and to devise contingency plans.
- Management skills and experience in crisis management.
- The culture of the organization, e.g. has the organization always had a team dedicated to crisis management?
- The nature of the organization's operations and the industry in which it operates, e.g. hazardous occupations such as the soldiers in the army versus relatively 'safe' jobs such as management consultants. In the case of providers of healthcare products such as B&L, a major crisis could even cause irrevocable damage to the organization.

Award 1–2 marks if the answer is generalized, vague and may be presented in a list-like format without any explanations.

Award 3–4 marks if the answer lacks detail and/or application or is unbalanced.

Award 5–6 marks if there is a balanced examination written in the context on B&L. Appropriate business management terminology and relevant examples are used.

Award 7–8 marks if there is a balanced discussion in relation to B&L. Appropriate business management terminology and relevant examples have been used. There is evidence of evaluation and critical thinking.

Question 5.7.3 H5N1 bird flu

- (a) A contingency plan is a back-up plan that looks at how to deal with a specific problem or crisis to ensure the continuity of the business. It involves the assessment of 'what if?' scenarios and specific strategies to deal with emergencies, e.g. the outbreak of infectious diseases such as bird flu.

Award 1 mark for a vague understanding of contingency plan.

Award 2 marks if the term 'contingency plan' is clearly understood. There is appropriate use of business

management terminology with an example from the case study likely to be used.

(b) Benefits to organizations such as banks and schools that devise contingency plans include:

- Planning reduces the impact of a crisis on an organization because there is a well thought out plan to follow in the event of a disaster, e.g. training teachers so that 'lessons' can continue in the event of an outbreak of bird flu (via online teaching methods).
- It can help to reassure staff and hence satisfy the safety needs of employees, as advocated by psychologist Abraham Maslow. This is relatively important for banks that would be affected by the outbreak of bird flu, negatively impacting Turkey's lucrative tourism industry.
- The plans require effective communication between senior management and employees, possibly helping to improve motivation and productivity.
- Ultimately, it can reduce the risks faced by an organization in the wake of a crisis, thereby ensuring its continuity, e.g. providing banking services to customers via teleworkers, telebanking and online banking.

However, there are related costs too, such as:

- Contingency planning uses up valuable management time and resources, thereby increasing administrative costs.
- Crises may never happen (there may not ever be an outbreak of bird flu) and therefore the time and money spent on contingency plans could have been better used elsewhere.
- Plans can often be based on outdated or inaccurate data (e.g. scaremongering by the news media), then inappropriate actions may be taken if and when a crisis does occur.
- No amount of planning can ensure that the operational efficiency of schools and banks continue if there is a major crisis such as bird flu, e.g. could schools really continue to operate effectively without teachers and students physically in school?

Award 1–2 marks if the answer is vague and generalized and may be presented in an unexplained list-like format.

Award 3–4 marks if the answer shows some examination of the costs and benefits of using contingency plans, although it lacks detail and/or application in areas.

Award 5–6 marks if the answer considers both the costs and benefits of using contingency plans. There is good use of relevant business management terminology. Appropriate examples have been used in context of the banking and/or education industry.

Question 5.7.4 Toyota

(a) A product recall occurs when (usually) the manufacturer has to retract a faulty product from the market due to health and safety reasons, i.e. the product is of substandard quality and could pose a public threat such as the various mechanical problems with Toyota's cars.

The product recall can damage Toyota's corporate reputation because:

- Substandard quality will adversely affect the perception of the quality of Toyota's cars, perhaps irrevocably.
- Product recalls can inconvenience customers thereby increasing the number of customer complaints.
- Unsafe cars can cause physical harm to customers, again damaging Toyota's global reputation.
- Product recalls mean that deliveries (of cars) are delayed. This can result in compensation claims being made, further harming Toyota's reputation.
- Ultimately, product recalls can harm the competitiveness of Toyota by affecting its corporate reputation and its costs (around \$2.47 billion in the USA alone) in an unfavourable way.

Award *1–2 marks* if a definition has been given, but there is no explanation of how product recalls affect the reputation of businesses or if the explanation is vague.

Award *3–4 marks* if there is a clear definition/understanding of product recalls, with an explanation of why/how they can damage the corporate reputation of businesses such as Toyota. There is good use of business management terminology and relevant examples.

(b) Whether it would be in Toyota's best interest to spend money on contingency planning or improving the quality of its cars is debatable. Arguments for spending money on contingency planning include the following:

- Producing high quality cars does not prevent crises from occurring, e.g. fire in the workplace or major industrial action from the workforce.
- Careful planning can help to reduce the risks of crises, which can happen despite any quality assurance that Toyota might have. This might include having a PR team trained and ready to deal with media exposure to crises to dampen any negative impacts on the organization.

On the other hand, arguments in support of spending money on improving the quality of Toyota's cars include:

- The argument that 'prevention is better than cure', i.e. building high quality cars would prevent product recalls.
- The funds spent by Toyota on planning for crises that are highly unlikely to occur means that the money could have been used for other purposes.

In evaluating the decision, Toyota would need to consider several factors such as:

- the views of its various shareholders, budgetary constraints
- past experiences, e.g. the extent to which it has effectively managed crises in the past
- public opinion
- market research data, e.g. how customers perceive the quality of Toyota's cars in relation to that of its main rivals.

Award *1–3 marks* if the answer shows limited understanding. It lacks detail and is rather generalized. There is little, if any, application shown.

Award *4–6 marks* if the answer shows a good level of understanding but the answer is unbalanced and/or not written in the context of Toyota. Appropriate business management terminology and examples have been used.

Award *7–8 marks* if there is a well-balanced answer that considers both the arguments for having contingency plans and for improving the quality of Toyota's cars. Appropriate business management terminology and examples have been used. There is evidence of critical thinking in the evaluation of the decision.

Question 5.7.5 Chaos at Hong Kong Disneyland

(a) Public relations (PR) refers to marketing activities aimed at establishing and protecting a desired corporate image of an organization. It is about getting positive press and media coverage, usually without directly paying for it. PR would be hindered when an organization, such as Hong Kong Disneyland (HKDL), faces major complaints from employees and customers.

Award *1 mark* for a vague understanding of public relations.

Award *2 marks* if public relations is understood with appropriate business management terminology used.

- (b) Strategies that HKDL could have used to deal with the poor/negative public relations that it faced include:
- Enter negotiations with labour union representatives to deal with the issue of staff complaints to seek a win-win outcome.
 - PR activities to deal with the negative press/media coverage of HKDL's catering arrangements.
 - PR campaigns to deal with the issue of overcrowding in the theme park, with emphasis on the company's concerns for public safety.
 - All external enquiries relating to the crises should be dealt with by a predetermined team of senior managers and those experienced in crisis management to ensure that the correct or desired messages are being portrayed in a consistent manner.

Award 1–2 marks if the answer lacks depth, application and/or coherence.

Award 3–4 marks if two strategies are examined, although the answer might lack detail. At the lower end, only one strategy is examined in detail.

Award 5–6 marks if two strategies are concisely examined, in the context of the case study. Appropriate business management terminology and relevant examples have been used.

- (c) It could be argued that HKDL might have been better prepared for dealing with the problems of overcrowding because:
- Quality management systems would have ensured that HKDL did not oversell tickets beyond its daily capacity, i.e. overcrowding should have been prevented rather than dealt with.
 - Perhaps it might be better for theme parks to overestimate, rather than underestimate in the case of HKDL, the number of visitors during its peak periods. Improved marketing research may have therefore helped to prevent such a disaster from happening.
 - Successful crisis management would have helped to ensure that measures were in place to avoid such crises altogether. This may have minimized HKDL's exposure to the overcrowding crisis.

However, counter-arguments include:

- The theme park was in its first year of operation so therefore no amount of contingency planning could have catered for the huge influx of visitors during the Chinese New Year week.
- External factors are beyond the control of HKDL, e.g. changes to the state of the Chinese economy or the income levels of its people, mean that contingency plans can become invalid in a very short time.
- Some risks are uninsurable as they are so difficult to quantify so this makes crisis management and contingency planning even more challenging.

Award 1–2 marks if the answer is rather vague and/or descriptive with major omissions.

Award 3–5 marks if the answer is coherent but may lack detail and/or application. Award up to 4 marks for an unbalanced response. There is no attempt made at justifying the answer.

Award 6–7 marks if there is a well-balanced answer, written in the context of HKDL. Appropriate business management terminology has been used. There is evidence of critical thinking and the answer has been justified.